AN OPEN LETTER

TO

THE RIGHT HON.

David Lloyd-George, M.P.

CHANCELLOR OF THE EXCHEQUER

ON THE CAUSES OF

Strikes and Bank Failures

BY

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PREFACE

ONE afternoon last summer, shortly before the prorogation of Parliament, a heterogeneous group of members belonging to the various political parties were seated with some friends on the Terrace of the House of Commons enjoying their tea, when a certain member propounded the question as to what Reform England (*i.e.* The British Isles) stands most in need of. "Tariff Reform" came the first reply, needless to say from a Unionist. "Franchise Reform" exclaimed a Liberal; "Female Suffrage" said a third; "The Single Tax" replied a Henry Georgite; "The Right to Work" added a Labour Member; whilst an Irish Nationalist suggested "Home Rule." The question was then put to the various guests, the most interesting of whom was a well-known American author. His proposals were so unusual, and created so much astonishment, that one of the group carefully noted his remarks in shorthand, which were as follows:—"I do not pretend to fully understand British politics, but I have, during several extended visits, made very careful observations of the conditions of your people both in the large cities and small towns. It appears to me that your economic conditions and needs are very similar to ours. In fact there is one great and universal problem common to all industrial nations, which thinking people in all lands are trying to solve. And that is the problem of poverty! We, in the United States, have already tried some of the remedies which you gentlemen have suggested, particularly what you term Tariff Reform,

and which we designate by the good old name of Protection. Every one of these so-called remedies alone has failed, especially Protection, just as it failed with you half a century ago and as it has failed universally. Poverty is as rampant with us as with you. You have tried what you term Free Trade for nearly two generations, and you are still seeking the remedy. Our disease like yours is chiefly financial. Examine carefully all the difficulties confronting you—strikes, unemployment, lock-outs, bank failures, trade depression, and you will find at the root, they all resolve themselves into a question of money. And it is this subject that is seldom if ever discussed or ventilated and about which we know little or nothing. We, like you, regard it as a purely technical and extremely uninteresting subject, and have hitherto left it entirely to the consideration of our financiers. One thing, however, we Americans have recently realised, and that is, that our trade and industries —indeed our national life—are now in the grip of the money power, and that this is wholly due to our currency and banking laws. The next Presidential Election will be fought mainly upon this issue, viz., whether we are to be governed by ourselves or by our bankers.

"I think your people are almost in a similar position. The only difference is that your financiers are less brutal than ours. But your currency laws—like ours and like all the Powers who have permitted their bankers to frame them—have raised this simple tool of exchange above the level of the most precious and most necessary of all commodities, so that instead of devoting ourselves to acquiring that which makes life comfortable, healthy and happy, we are all in pursuit of money! We are mistaking the means for the end! In my humble opinion I think Currency Reform is the most urgently needed measure for this country and for us.

Important as is the land question, I consider the money question still more so. All nations can produce more wealth than their exchange facilities are capable of properly distributing. Hence you have overproduction of goods side by side with starvation!"

He concluded as follows:—"The unfortunate and humiliating feature is that so very few people understand this question."

The Banking and Currency Reform League agree with every word of this distinguished American's statement. For the past two years it has been calling the public's attention to the grave dangers existing by virtue of our antiquated monetary laws and has sounded notes of warning of the approaching débâcle which sooner or later must overtake us—unless these laws are repealed and a saner, safer system adopted. It is with a view of again bringing the subject before the people that the League have decided to publish the following open letter from its President, Mr Arthur Kitson, to the present Chancellor of the Exchequer—by far the ablest man who has held this office since the days of the great Gladstone.

November 7th, 1911.

Recent Strikes & Bank Failures

An Open Letter

To the Rt. Hon. David Lloyd George, M.P.,
Chancellor of the Exchequer,
11 *Downing Street, London, S.W.*

DEAR SIR,

Cause of the Present Discontent

Recent events of National importance, which the British public have been called upon to witness, indicate the existence of a very serious and deep rooted disease in our Economic System.

In a crisis such as we have just witnessed, it becomes the duty of everyone to offer any special knowledge he may possess, which may assist in locating the seat of the trouble.

To some of us, who have given the subject careful study, it is apparent that the present labour troubles are merely symptoms of the same disease which led to the failure of the Birkbeck Bank, to the difficulties which necessitated the re-organisation of the Yorkshire Penny Bank, and is responsible for the continued low prices of Consols and other securities.

The great strike is (as one of the London dailies recently stated) "a question of money," and, therefore, belongs to the same category as the other events above mentioned. In short, the disease is a financial one.

The fear that these object lessons may be misinterpreted or missed altogether, prompts us to address you as the Head of the National Exchequer, and at present, the most capable physician this country possesses for dealing with the disease.

If, as we hope, these lessons may eventually lead to

such legislative action as shall prevent—or reduce the risks of—a recurrence of these disasters, that which at present is a serious calamity, may prove to have been an incalculable blessing to the world at large. For, let it be clearly understood, these events are merely the logical and inevitable results of a dangerous condition to which all our industrial and financial institutions are continually exposed—a condition which, as we shall presently show, is the direct product of our unscientific currency and banking laws. And behind these lie concealed the grossest fallacies and superstition, which we shall endeavour to expose.

Moreover, unless these laws are changed, sooner or later disasters far more widespread, and of a much more serious nature, must overtake us.

Now, since our trade, our industries, and commerce depend upon our currency and banking systems, it follows that any financial weakness or disorder must necessarily affect injuriously those classes engaged in wealth production.

Our Present Financial Condition

Let us first consider our financial situation, and then we shall be able to see how this affects the condition of labour.

Is it not a most significant fact that our bankers are much more concerned in keeping the public ignorant of the real condition of affairs than in seeking to strengthen the foundation upon which our industries are supported? Is it not a sign of weakness that the press universally, refuse to discuss this question except in the most guarded and cautious manner? How long must a policy of ignorance and apathy be tolerated? Are we to wait until the ship is hopelessly on the rocks before warning the passengers and crew of their impending danger? These perils have again and again been pointed out by well-known authorities, but because of the universal ignorance and superstition prevailing, together with the influence of those vested interests, which find in these

dangerous conditions opportunities for vast gains, these warnings continue to remain unheeded.

Opinions of Authorities

Nearly forty years ago, Walter Bagehot, the well-known Economist, wrote as follows ("Lombard Street"):—

"The peculiar essence of our Banking System is an unprecedented trust between man and man, and when that trust is much weakened by hidden causes, a small accident may greatly hurt it, and a great accident for a moment, may almost destroy it.

"There never was so much borrowed money collected in the world as is now collected in London. If any large fraction of that money really was demanded, our Banking System and our Industrial System too, would be in great danger."

In another place, we find the same authority saying that "all our credit system depends upon the Bank of England for its security. On the wisdom of the Directors of that one Joint Stock Company, it depends whether England shall be solvent or insolvent. This may seem too strong, but it is not. All banks depend upon the Bank of England and all Merchants depend upon some Banker."

Further on he says:—"So far from our being able to rely on the proportional magnitude of our Cash in Hand, the amount of that cash is so exceedingly small, that a bystander almost trembles when he compares its minuteness with the immensity of the credit which rests upon it."

Ricardo said:—"On extraordinary occasions a general panic may seize the country when everyone becomes desirous of possessing himself of the precious metals as the most convenient mode of realising or concealing his property—*against such panics, banks have no security on any system.*"[1]

The late Lord Goschen on several occasions pointed out the great risks our banking system involved. In a speech at Leeds in 1892, when Chancellor of the

[1] Italics ours.

Exchequer, he said that "no fertile imagination could exaggerate the gravity of the position."

Dangers created by Legal Enactments

The Birkbeck Bank failure is merely a repetition of what has taken place again and again in this and all commercial countries, and from similar causes—causes little understood by those who alone have the power to provide the remedy.

It is a humiliating fact that, whilst in the development of the industrial arts, safety to life and property has fully kept pace with the attainment of increased powers of production, every additional banking facility furnished to trade has been attended by an alarming increase of risk. The cause is obvious. Whilst in the industrial and manufacturing arts, experimental work has been unrestricted by legislation, in the field of Finance the door has been barred.

Under the fatal ban of the Legal Tender and Bank Charter Acts, all banking enterprise of an original character has been suppressed, and our joint-stock banks have had to erect their vast edifices upon the narrow and unstable foundations provided by these laws.

To one who has given the subject any careful thought, the marvel is that we have so long escaped the inevitable *débâcle*, which sooner or later must overtake us.

To fully grasp our financial situation, a rather wide survey must be taken, and although it may be thought we are treating the subject in a very elementary manner, our apology will be found in the appalling ignorance and superstition prevailing. And for this, we must thank our educational institutions and the bulk of our orthodox writers.

The most important truths are sometimes the last to be perceived. In connection with financial failures such as those referred to, the two most obvious facts are that the supply of legal tender is absurdly insufficient to meet legitimate needs, and since this insufficiency is due to law, the responsibility for such failures rests with our legislators.

It is not generally known, nor is the fact fully appreciated, that the currency and banking laws of all nations have been directly instigated by—or framed under the advice of—professional money-lenders, to whom a restricted supply of legal tender is advantageous. Scarcity of legal tender means high rates of interest, and a constantly increasing demand for a substitute—bank credit—upon which bankers thrive.

Under the plausible cry of a "sound currency" and "honest money," the public have been gulled into believing that *quality* is the one and only thing necessary to be considered in the establishment of a monetary system—quality in this case being synonymous with scarcity. Governments have thus been persuaded to select gold—one of the rarest and most expensive metals—as the money commodity, without even considering the relation of the supplies available to the legally created demand.

It follows, therefore, that a man may be possessed of wealth—land, houses, manufactured articles—nay even so-called securities, such as debentures, bonds, and mortgages, much in excess of his liabilities—and yet become bankrupt. For unless he can exchange these for legal-tender, he cannot discharge his debts.

Insecurity of our Banks

Now all our banks are necessarily dependent upon the ability of their clients to repay call loans on demand, and an unfailing market for their securities—which constitute their chief assets—in the event of a sudden demand for the withdrawal of deposits by creditors.

No single bank can stand a "run," without seeking aid from other banks, and should the "run" extend to others at the same time, our banking system would collapse like a house of cards! This will excite surprise only amongst those who are unfamiliar with the banking business. For the principles governing this profession are quite the reverse of those prevailing in the industrial arts.

For example, in the construction of a bridge, an engine or machine, we always provide a factor of safety—a

margin of strength—to meet any emergency to which the bridge or machine may be exposed. Our banking system, on the other hand, is built upon a margin of bankruptcy! No provision whatever is made for any extraordinary event, such as a war or panic.

Bankers' dividends depend largely upon the difference between the amount of their loans to clients and their cash on hand. The greater this difference, the larger their earnings. The temptation is, therefore, to keep only sufficient legal tender to meet the ordinary day's demands, and loan the balance.

Let us glance for one moment at the actual state of our banks. According to recent authorities, the total stock of gold held by these institutions, including the Bank of England, does not exceed £60,000,000. Some writers even assert that the Bank of England's reserves constitute the entire reserve stock. It is variously estimated that the total amount of gold and gold notes in circulation is between £50,000,000 and £60,000,000. The highest estimate of legal tender (gold and Bank of England notes) in Great Britain is under £120,000,000! This is the foundation upon which our vast credit system is supported!

Trade Fluctuations are due to Finance

Our economic system has been ingeniously illustrated by an inverted pyramid (Fig. 1).

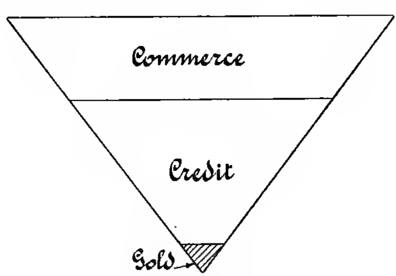

FIG. 1.

The apex supporting the structure represents the com-

paratively insignificant amount of gold, which carries the load represented by credit, which, in turn, maintains commerce.

Just how vast is this volume of credit may be gathered from a few well-known facts.

The total amount of bank deposits (including the Savings Banks) exceeds £1,200,000,000. The annual clearings of the London Banker's Clearing House exceeds £13,000,000,000! The amount of unsecured paper circulating in England in a single year is estimated at close upon £20,000,000,000! All our home and much of our foreign trade, our Stock Exchange transactions, our financial foreign enterprises, loans, the payment of dividends, coupons, wages and all our taxes, have to be borne by this absurdly small foundation!

At present, the total value of securities quoted on the Official List of the London Stock Exchange (exclusive of foreign stocks) exceeds £8,000,000,000! Moreover, this country is investing capital abroad at the rate of £80,000,000 per annum.

All this tends to bring about periodically a state of extreme tension in our money market.

Finance does not keep pace with Industry

Now, although our trade has increased by leaps and bounds during the past few years, there has been no substantial increase in the bank reserves, nor in the volume of legal tender. Moreover, if we go back to the time of the Bank Charter Act, we find the proportion of cash to credit and commerce has alarmingly decreased.

In 1844 the ratio of gold bullion in the Bank of England to the bank deposits and notes in circulation was 14 per cent. To-day the ratio is from 2 per cent to 3 per cent!

Take any of the great joint-stocks banks. How many of them can show at any time—even for window-dressing purposes—10 per cent of cash available against their liabilities? Is it not self-evident that not one of them could withstand unaided a sudden demand such as that which

overthrew the Birkbeck Bank and which threatened the Yorkshire Penny Bank? And one shudders to contemplate what would happen in the event of a great crisis such as a war with Germany!

Of what use are Consols or Colonial bonds or railway securities during a crisis when there are no buyers, when everyone is demanding legal tender?

Even if we could drain the banks of Europe of all their gold, in such a crisis, it would not save us.

This system, which has been eulogised by writers, and praised by bankers as God-given, would fall like Lucifer, bringing universal bankruptcy!

Although the system is attended with such imminent danger, it is not difficult to see why most of our bankers are opposed to any drastic reform. Banking and money-lending are enormously profitable businesses, and since our Judges seem incapable of distinguishing between moderate interest and ruinous usury, England has become the Paradise of the usurer, in spite of our laws to protect the borrower!

Whatever may be said as to the motives of those responsible for these acts, the results are plain. *The fortunes of the members of the commercial and industrial world are entirely at the mercy of professional money-lenders.*

How Commerce is controlled by Gold

The extent to which this prevails has been most explicitly stated and convincingly illustrated by Sir Edward Holden, the well-known General Manager of the London City and Midland Banking Co. In his address to the Liverpool Bankers' Institute (December 18th, 1907), on the subject of "The Depreciation of Securities in relation to Gold," Sir Edward illustrated the condition of the banks by a triangle, showing that credit was restricted by gold, regardless of the enormous wealth possessed by the nation in other forms.

He first states—what is often forgotten—that loans create bank credits, and if we regard all the banks in

London as one, the business of banking becomes little more than a matter of book-keeping—the transfer of credit from one person to another. He then proceeds as follows—"The right side of the triangle (Fig. 2) represents the loans of the whole of the banks, and the left side represents the cash balance or reserve. If, then, you draw a line from the left of the base and equal to the base, you get the cash credits in existence. *If the loans and credits as represented by the two sides of the triangle were the only two elements which bankers had*

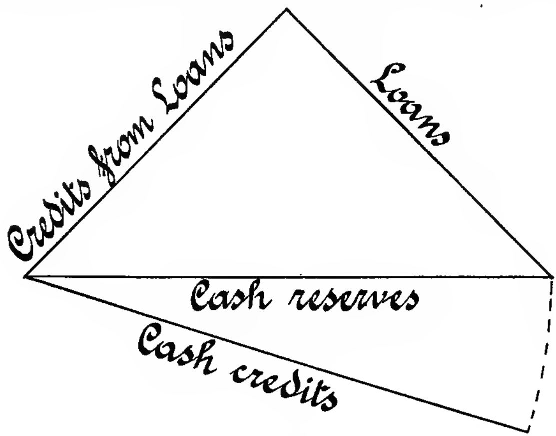

FIG. 2.

to take into consideration, then there would be no necessity for them to restrict their loans at all, and traders could increase their business and obtain loans ad libitum.[1] But there is another element, and a most important one, to be taken into consideration, and it is the fact that all the credits as represented by the left-hand side of the triangle and the line drawn from the base, are practically payable on demand and in gold, assuming,

[1] Italics ours. Under a rational banking system the limit of loans would be the amount of tangible security pledged, and not merely that small proportion of wealth which is immediately exchangeable for gold.

of course, that Bank of England notes represent gold. Every banker must, therefore, make up his mind by what amount his credits are liable to be diminished, both in ordinary and extraordinary times, and when he has thus made up his mind, he ought to keep that amount of available resources in gold, or in a means of obtaining gold. Let us consider, then, that the base of the triangle consists of gold, and it is the ratio of the base of the triangle to the total credits (both created and cash credits) which restricts bankers from increasing unduly their loans. If business increases unduly, and if bankers continue to increase the loan side of the triangle, of course concurrently increasing their credits, and not being able to increase the gold base of the triangle, then evidently they are getting into danger, *and the only judicious course which they can pursue is to curtail their loans, curtailing an undue increase of business, which curtail the credits, and thus re-establish the ratio.*

"You here see the direct connection between trade on the one hand and gold on the other, and that it is not so much the production of gold as the amount of gold which can be obtained for the purpose of increasing bankers' reserves. I venture to think that the above explanation will enable you to come to the conclusion that, if the gold base of the triangle cannot be increased, then the danger spot is the LOAN.

"I want you to remember that the banking system of every country has its triangle, and that the principles enunciated above exist in every triangle of every banking system based on gold in the world; that being so, it is clear, generally speaking, that the business of the world is carried on by means of loans, that loans create credits, that the stand-by for the protection of credits is gold, *and that therefore gold controls trade.*" (Italics ours.)

"*It may happen that the trade of one country grows by leaps and bounds, the loans and credits, of course, following, while the trade of other countries remains normal. What, then, takes place? The gold base of the triangle of the former becomes too small, and it is necessary to enlarge it.*

How is the increase effected? It is effected by the representative bank of the more prosperous country attacking the gold basis of the triangles of other countries, and the instrument by which the attack is made is the rate of discount. By this means gold will be attracted from the bases of the triangles of other countries, and unless those bases are too great for the adequate protection of the credits, the representative banks of those countries will meet the attack by also putting up their rates. But it may happen that the trade of every country has increased by leaps and bounds, and that all loans and credits have also increased. Then the fight begins by each country putting up its rate, first to prevent its base being diminished, and, secondly, to increase it if possible. Hence we have the English rate at 7 per cent., the German rate at 7½ per cent., the Austrian rate at 6 per cent., the Dutch rate at 5 per cent., the Belgian rate at 6 per cent., the French rate at 4 per cent., the Italian rate at 5½ per cent., the Russian rate at 7½ per cent., but as the United States have no Central Bank, there is no official rate for that country." (Italics ours.)

A Leading Banker's Confession

Here is a frank avowal on the part of one of the world's leading bankers, that trade and commerce are ever at the mercy of the manipulators of gold, that long-continued industrial prosperity is impossible because of the restrictions imposed upon exchange by our legal tender system, and that the gold basis is a brake upon the wheels of industry, which is continually checking the pace of production! Here also is the explanation of the phenomenon that periods of prosperity are inevitably followed by periods of depression! Increased trade demands increased banking facilities—increased loans—but the moment credit is increased to meet this demand, the gold reserves are strained, the bank rate is raised, loans are called in, the brake is applied to the wheels of industry, production checked, employees are discharged, enterprise is discouraged, and the extra demand for money and credit, which prosperous times require, is choked off. *In short,*

our financial system destroys prosperity, and reduces trade to the amount of gold available. So that the mechanism of exchange, instead of facilitating trade, actually checks it! It first stimulates industry and then destroys it. The gold basis has become both the life and death of trade.

The Omnipotence of Financiers

Without exacting any conditions compelling them to furnish the commercial and industrial classes at all times with an adequate supply of the tools of exchange, and without obtaining any profit for the nation by the grant, Governments have given a monoply of inestimable value to that class who deal in, and have power to control large supplies of money, viz., bankers and insurance companies. This monopoly gives them power to impose a tax upon all production and exchange, limited only to the ability of industry to bear the burden. It was to gain this power that the American financiers recently fought each other so fiercely for control of the Equitable, Mutual, and other great Insurance Companies, who collect annually enormous sums in the shape of premiums. And the irony of it all is, that this power to tax and oppress the people is exerted entirely by means of the instrument furnished and owned by the people themselves. The cash with which the world's financiers control credit belongs to the public, and consists principally of bank deposits and insurance premiums. "The great monopoly in this country," said Dr Woodrow Wilson (the prospective Democratic Candidate for the Presidency), in a recent address in New York, "is the Money Monopoly."

Legal tender laws have made the financier more powerful than rulers. Mr Pierpont Morgan is a far more powerful person in the United States than President Taft, and the Governors of the Bank of England have much more influence upon our trade than all the members of the Cabinet combined. Indeed, we have exalted the world's financiers above the nations themselves. For whilst the former can use their own credit as currency and charge for its use, Governments are compelled to

borrow the credit of certain of their own subjects, and pay for the loan. A private corporation like the Bank of England can issue £18,450,000 of unsecured paper currency, can loan it and draw interest charges, and yet its creator—the nation—cannot issue a single £5 note, but must hypothecate the national credit and pay interest whenever it needs more money than its chancellor happens to have collected! Isn't it humiliating?

If the national credit will buy gold, why is it not good enough for currency purposes? Can the stream rise higher than its source? In the realm of finance all our axioms seem fallacies. Since we mortgage the national credit, and buy the individual's at his own price, a part must be greater than the whole!

Since our credit finds ready acceptance among the great credit dealers of the world, why should it be considered unsafe when issued in small denominations for the purpose of domestic exchange? The theory prevailing on this subject is, that whilst our national credit is perfectly reliable when issued in units of large denomination and to the extent of hundreds of millions, it would be dangerous if issued in units of one pound, five pounds, or ten pound notes! One of the greatest assets belonging to all industrial communities collectively, is that arising from the organisation of Society and the moral qualities pertaining to the people—in short to what we term civilisation. The higher the degree, the more the virtues of honesty, industry, and sobriety are practised among the members of such a community, the greater is this asset. It has a great commercial value and is expressed in the form of credit. Here is a mine of untold wealth, a factor of incalculable value which might be employed in place of gold with far less risk and infinitely less expense, an asset belonging to the British as well as other nations! And yet our brilliant statesmen have found no use for it except for the one purpose of destroying life and property! Ever ready to avail themselves of the national credit for prosecuting a war, they have never been known to use it for the welfare of the people, for creating wealth, prolong-

ing life and raising the standard of education and well-being among the masses! On the contrary, they have passed laws compelling wealth producers to borrow from individual bankers and money-lenders, and deliberately suppressing the employment of that credit which is the essential birthright of all industrially organised communities!! And yet our Chancellors of the Exchequer are racking their bràins in search of new sources of taxation, whilst this mine—richer than any gold mine—remains closed!

The fundamental fallacy underlying and responsible for our present chaotic currency system is the theory that the value of Currency rests not solely in its utility—in its ability to perform the necessary functions of Exchange—nor in the credit and honesty of its creator, but entirely in the material of which it is composed or in which it must be redeemed! It is the materialistic theory in all its crudeness and barbarity! For it makes the physical qualities of the inanimate, more desirable and of far more value than the highest qualities of the highest type of the animate! It is a theory not only false economically, but morally and physically debasing and degrading!

It is quite possible—indeed highly probable—that not a single member of any Government responsible for these currency laws had the slightest notion of the effect they would have upon society and civilisation. They doubtless imagined they were conferring a benefit upon the public by providing "a safe and sound currency," as our usurers like to call it!

Ignorance of Legislators

Sir Robert Peel certainly believed that, with the establishment of a gold currency, or one convertible into gold on demand, he had solved the money problem for all time. His famous question, "What is a pound?" indicated a mind as vague on this question as that of jesting Pilate's on another, when he asked, "What is truth?" and would not stay for an answer. That money is merely "a medium of exchange," "an invention for facilitating trade," "a tool," "a ticket," "a token," "a counter" (as

defined by the celebrated Bishop Berkeley), "merely an evidence of debt" (as defined by Bastiat), "intrinsically the most insignificant thing in the economy of Society except as a contrivance for sparing time and labour" (so defined by John Stuart Mill)—these definitions conveyed ideas which would have been scouted by Sir Robert's advisers. These regarded money as a commodity to be loaned at as high a rate of interest as possible, as a means for controlling and taxing industry, a medium for drawing from the pockets of the producing classes a perpetual income through the creation of inextinguishable debts.

Had any member of the mercantile community suggested that in establishing a monetary system the important thing to consider was how to facilitate the growth of trade, and that a system which did not provide automatically a supply of legal tender equal to the demand would tend to check enterprise and industry and provoke discontent, labour wars, over production, and under-consumption, trade depression and unemployment —he would have been told that these matters had no bearing upon the question. The absurdity of making the *quality* of money the only consideration—whilst neglecting the question of sufficiency—is at once obvious the moment one applies it to the industrial arts. An article may be too good for use by being too costly. Silk is admittedly a more comfortable fabric for underwear than either wool or cotton, and sealskin makes a warmer winter coat than shoddy. But no government would be idiotic enough to restrict the manufacture of underwear to silk, or coats to sealskin, knowing that such acts would leave the vast masses of people naked—if not ashamed. The tendency of industry is always to select the cheapest material for satisfying human desires. And, but for these harassing and restrictive laws, the intelligence of bankers would have enabled them to provide the mercantile community with a currency which would have been adequate for all the needs of trade without any of the risks now incurred, and money, instead of being a scarce article (and, therefore, of all things the most

urgently demanded), would have been of no more importance—so far as its nature and supply are concerned—than railway or theatre tickets. To have decreed that railway and theatre tickets or postage stamps should be composed of—and, therefore, limited to the supply of—some rare metal like platinum, would not have been one whit less reasonable than are our legal-tender laws. And just as such legislative acts would have greatly reduced the number of railway passengers and theatre goers, and reduced the number of letters to the supply of the metal selected—resulting in closing up half the theatres, bankrupting the railways, entailing a heavy loss on the postal service, and reducing and hindering business—so, by restricting legal tender to the supplies of gold available, we have actually been compelled to restrict our credit to these supplies, and, therefore, our trade and industries, regardless of the wealth we possess. For, as Sir Edward Holden says, "*Gold controls the trade of the World.*" And only by the public undertaking continually the enormous and dangerous risks of panic and wholesale bankruptcy—which the employment of our vast and insecure credit system entails, and by piling up mountains of inextinguishable debt—has the commerce of the world been enabled to expand.

No Bank is Solvent on the Gold Basis

By confining their attention to the value of the money unit and legislating in favour of a costly standard, the framers of these money laws have forced us to adopt a currency which is insufficient, insecure, and dangerous in the extreme. Bankers and merchants are led to make promises they know they cannot fulfil, and business is carried on by ignoring the basis and trusting to each other's honesty, instead of demanding gold. *No bank is to-day solvent on the basis provided by law. Not one could begin to fulfil its obligations in the precious metals.*

It will doubtless be urged that, after all, since bank failures in this country are comparatively rare, the danger cannot be so very great. Those who urge this are evidently ignorant of the cost to the nation of maintaining

the solvency of the system,—a matter to which we shall refer later.

If it be true,—as some have asserted,—that every advance of 1 per cent. in the Bank of England Rate means a tax upon the British public equivalent to at least £100,000 per week, knowledge of the frequent advance and the amount and time the rate stands above the normal rate prevailing in France, for example, will give some idea of the burden entailed. Moreover, the fact that a bridge has stood years after it has been condemned does not prove its safety—especially if the traffic has been restricted.

Bankers are compelled to restrict trade and industry in order to maintain the safety of their institutions.

Now, the first feature we remark about the failure of the Birkbeck Bank—a feature which discloses the speculative nature of our banking system—is that, although hundreds of individuals have suffered losses, the wealth of the nation—or of the world—has not been reduced by one penny. Unlike a flood, fire, storm, or other natural disaster, a financial failure destroys no tangible, no material wealth. It is merely the transfer of the wealth of one class to the pockets of another.

Cause of the fall in Consols

We are told that, in the instances under consideration, the failure of this bank was due to a shrinkage in the prices of Consols and other gilt-edged securities. What really happened was this. When these securities were originally purchased by the bank, the money belonging to the depositors was transferred to the former holders of these securities. The securities have not changed. Intrinsically they remain as they were. No one doubts for a moment that the nation will default in its interest payments during the life of these bonds. The change that has occurred to affect their prices and has occasioned all the trouble, is a change in the relation of the volume of the currency to that of investments.

The creation of high interest-bearing investments during the past few years has far exceeded any increase in the

supply of gold—which is the only means provided by our laws for the increase of legal tender. And any increase in the volume of bank credit, which is not accompanied by a corresponding increase in gold, is merely increasing the dangers already existing. *Here then is the fundamental cause of the decline in these securities, which no one seems to have hitherto considered.*

We have, on the one hand, a demand for money and credit, which steadily increases year by year, due to the growing population and the accompanying increase of trade. On the other hand, we have restricted by law the supply of money to the accidental discoveries of a comparatively rare and expensive metal—a measure which, were we not so superstitious and so accustomed to present conditions, we should regard as a product of Bedlam! Moreover, since the enactment of these laws, all other commercial nations of the world have adopted the same financial basis, thereby increasing the demand in a far greater ratio than any increase in the gold supplies, and a vast and dangerous experiment is being made, the consequence of which, no mortal can wholly foresee. One consequence will be the gradual lowering of the standard of life among the working classes to that of the lowest standard existing in these countries. At present the most obvious result is the legal establishment of the worship of gold universally. The golden calf is enthroned supreme, and the first of the Ten Commandments has a new and startlingly terrible significance!

The Great Delusion

A recent writer, Mr Norman Angell ("The Great Illusion"), professes to see in this, a guarantee of the world's peace. To us who have studied the subject, it appears otherwise. Peace cannot be permanently established upon injustice, upon monopoly and usury, upon a system which exploits the wealth producer for the benefit of the speculator. The gold standard is far more likely to culminate in strikes, riots, and civil wars than serve to preserve peace. Under the universal reign of the gold standard no nation can enjoy any considerable period of

prosperity without inflicting an injury upon its neighbours. For increase in trade means an increased demand for gold, which tends to increase the Bank Rate universally. The growth of every nation is now dependent upon its borrowing and piling up vast debts which, unless further gold discoveries (as yet unforeseen) are made, or science enables mankind to realise the dream of the Alchemists—the transmutation of baser metals into gold—threaten to become inextinguishable, and the people will some day have to choose between perpetual industrial slavery for themselves and their posterity and repudiation!

If peace can only be purchased at such a price, few will hesitate to choose war!

Our Banking System enriches the Rich and destroys the small Producer.

Again, it is constantly asserted by orthodox writers on this subject that our Banks provide—in spite of our small gold reserves—an abundance of currency in the form of bank credit for all legitimate business needs, and they offer as proof the fact that money can always be borrowed at prevailing rates on "good" security. This is true, however, only under normal conditions. It is not true during a crisis—such as the American Currency panic. First of all, the rate of discount frequently determines whether an industry can exist or not. Hundreds of new enterprises would start to-morrow if money could be procured at *permanently* low rates—say 2 per cent. to 3 per cent. Under a higher rate they cannot even exist. But what is banking security? It is that which is immediately exchangeable for gold on demand—particularly when the money market is hardening, and bankers require cash. Such security is termed "Gilt-edged," such as Consols, Home and Colonial Railway Bonds, Municipal Bonds, etc., etc. But this is a class of security patronised chiefly by the rich and large financial institutions. The holders of such investments are seldom borrowers, and do not belong to the industrial classes.

The capital of those most in need of credit consists exclusively of machinery, tools, merchandise, credits

and goodwill, most of which would not be considered "good" security. Money is not cheap to the man who cannot get it, even if the rate is but 1 per cent! To such, the only avenue open is the usurer, who takes risks and charges accordingly, and—let it be noted—the usurer is as much the product of law as the smuggler—which is another illustration of the blindness of legislators! They have to enact laws upon laws, to suppress crimes directly created by former ones!

The scarcity of legal tender has necessarily led to great economy in its use, and orthodox writers—like Mr Hartley Withers—wax eloquent in praise of a system where the virtue of Economy is practised to the extremest limit.

It is difficult to follow the logic of those who admire such economy in the use of gold, and yet hold up to ridicule a purely paper currency system — where the use of the precious metals is entirely dispensed with—a system which all nations have had to adopt at one time or another during periods of national crises and distress.

But what these writers avoid mentioning are the stupendous risks which the public have to shoulder in order that such economy can be effected. And whilst the public are compelled to take all the risks, the bankers are taking all the profits!

Just now an enterprising firm in New York is constructing in that city of high buildings, one that is to eclipse all others. It is to be fifty-five stories high! Supposing the builders were to economise in the use of bolts, rivets and cement, so that the building was only able to stand during calm weather, but unable to stand a moderate breeze! How would such economy be regarded?

How the Public are taxed by the Banks

We are told, however, that our banks do not depend solely upon the gold supplies within their vaults. The Bank of England—bankers tell us—has a very *simple* method for attracting gold from all parts of the world. This consists in merely raising the Bank Rate—which reminds us of a well-known advertisement, "It is *so*

simple!"—and it is as simple as the public who have so long tolerated it! One is reminded of the improvident African chief, who, when asked how he obtained food for himself and family during a famine, smiled and said he had no difficulty so long as there were plenty of children belonging to the tribe! The raising of the Bank Rate means a tax upon our own industries; it means a weakening in the values of our securities, it inflicts enormous losses on the British public.

How the Solvency of our Banks is maintained

At the London Chamber of Commerce Dinner, given just after the United States Currency panic of 1907, Lord Avebury congratulated the members upon "the ease with which the London bankers had weathered the financial storm." He omitted, however, to tell them how and at whose expense the banks had remained solvent. This information was given by the next speaker, the late Arthur Lee, Esq. (formerly President of the Bristol Chamber of Commerce). Mr Lee said that no thanks were due to our bankers, since the safety of their institutions had been purchased at an enormous price paid by the commercial classes. The Bank Rate had been raised to 7 per cent., and remained at that ruinous figure for ten weeks! It is not so difficult to avoid brankruptcy when one has the privilege of taxing the richest nation in the world! Our suicidal system of maintaining a free gold market—the only free gold market in the world—enabled the New York gamblers in 1907 to reduce within a few weeks our reserves by 12 millions—which cost us in increased interest charges alone, to say nothing of the fall in our securities, the check to enterprise and the stagnation of industry!—from £4,000,000 to £8,000,000!!

For the privilege of accommodating one of our great trade rivals with 12 millions of gold, our banking system involved the nation in a loss enormously greater than the value of the gold exported!! In a pamphlet published by the Bristol Chamber of Commerce in 1908, a still more striking example is given of the damage

done to British investors by our free gold market. On August 19th, 1896, the Bank Rate stood at 2 per cent. On September 10th, the bank having exported £5,000,000 bullion raised the Rate to 2½ per cent. On September 24th, the Rate was raised to 3 per cent. after a further loss of £1,000,000, and on October 22nd the Rate was advanced to 4 per cent. The total amount of gold exported during the ten weeks ending October 27th, 1896, was 11 millions sterling. What was the result? Apart from the tax which the increased Bank Rate inflicted upon borrowers, the mere reduction of our gold reserves during this period—according to the *Bankers' Magazine*—caused a fall in the prices of 325 representative securities, equivalent to £115,509,000!!

These are some of the results of our highly praised banking system and its marvellous economy in the use of gold—a system which would bankrupt a less wealthy nation than ours, and which sacrifices our wealth producers to the interests of the bank shareholders, gamblers, usurers, and our foreign trade rivals!

Pending Disturbances

Just now the financial Press is warning us of pending disturbances in the money market, due to the annual movement of the crops in Egypt, America, and the Far East. Gold will be required abroad, and we shall again be penalised for having helped to impose the beneficent gold standard upon our Protectorates and Colonies and assisted in establishing it in other countries. Gold will be exported, the Bank Rate will be raised, our Home Industries will be taxed, and the enterprise and industry of our people checked![1]

It may create surprise that the exportation of a comparatively small amount of gold should produce such serious results.

Referring to our former illustration, if gold is exported credits are reduced. No banker will go on increasing his obligations regardless of the condition of his reserves.

[1] Since this was written the Bank Rate has been advanced 1 per cent. and a further advance is expected.

Now, for every golden sovereign—our system has piled up so vast a mountain of credit—there are hundreds—indeed thousands of claimants!

With the reduction of the gold reserves, there must necessarily be a proportional reduction of credit, and since trade and commerce are built in turn upon credit, by exporting so much gold we destroy that proportion of credit, and, therefore, the proportional amount of trade built upon it.

If, for instance, credit stands to gold as 10 to 1, the exportation of 11 millions in gold destroys 110 millions of credit! Such is the beautiful system inaugurated by Sir Robert Peel—under the advice of a professional

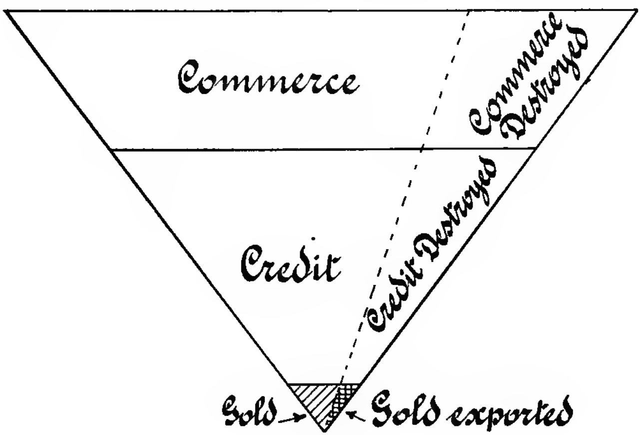

FIG. 3.

banker—for safeguarding the commercial interests of the British public!

Resolutions of the Chambers of Commerce

You, Sir, have been made aware of the resolutions passed by the Associated Chambers of Commerce, re-

specting the annoyance and injury to which British trade is exposed by reason of frequent changes in the Bank Rate. For the past fifty years these complaints have been voiced at the annual meetings of these bodies, and still nothing has been done to remedy the evil. Evidently the interests of bankers are regarded by the Government as paramount to those of all other classes combined!!

Indeed, the policy so frequently pursued by both parties of appointing professional bankers as Chancellors of the Exchequer proves this.

It has been frequently pointed out that, whereas the English Bank Rate fluctuates violently and frequently, the rate of the Bank of France remains remarkably steady, that where ours has varied as much as 6½ per cent. in one year, the greatest variation in the French Rate has been only 4 per cent! At present our rate varies eight times oftener than our neighbours. The reason is evident. We are enamoured by the term "free gold market"; although it is difficult to understand what benefit the wealth producers of this country derive from it. That they pay for the luxury at an enormous cost is certain. Beyond benefiting certain bullion dealers and bankers, and finding employment for a few clerks, it is doubtful what benefits accrue to this country. Most assuredly the evils are incalculably greater than the benefits derived. That it benefits our trade rivals is very certain. In short, the system permits our bankers to impose a tax upon British producers to prevent the foreigner from taking away their own legal tender. Moreover, we are the only nation that pays gold on demand under all conditions and circumstances. If it is such an enormous advantage to us as a nation, as some say, why has no other nation followed our example?

The truth is that the present system is the outcome of an artificial substitute for a natural system which our laws have strangled. The avowed object of the founders of the Bank of England was to create a great private monopoly, which was to operate, not for the benefit of British trade and industries, except so far as they brought business and profit to the bank, but, for the selfish

interests of the bank's shareholders. Moreover, if by accommodating foreigners and rivals, the bank could earn larger profits, it stood ready to sacrifice the home producers. When competition was threatened, the Bank secured legislation forbidding the issue of banknotes by any other bank within London and a sixty-five miles radius. It was then that the deposit and cheque system was brought forward as an evasion of the law forbidding note issues. And it is to this circumvention of our laws, in spite of its accompanying risks and costliness, that England owes her commercial growth and industrial supremacy. To our Governments it owes nothing. These have ever been on the side of monopoly and vested interests, and to this day no Government—Whig, Tory, Liberal or Radical—has even suggested lightening the load of the producer by repealing those monopolistic Acts. No doubt it would have required a Government stronger than any we have had to stand against the most insidious and rapacious enemy mankind has ever had—*The Money Power.*

How the System produces Unemployment

"What bearing," it may be asked, "has all this upon the condition of the wage earning class?" "Since wages are paid in cash, which must be provided by the employers, how are the wage-earners interested in the Currency question?"[1] The answer is obvious. Every wage-earner is interested in increasing the competition among employers for labour. The millennium of the manual worker is that promised by Mr Chamberlain—every man being pursued with the offer of two jobs. Money being a necessary tool of exchange, scarce money, like a scarcity of machine tools, means a scarcity of employment. Dear money, means restricted credit, and this is responsible far more than anything else for the formation of trusts and combines. The man who can command vast credit

[1] The Truck Acts compelling the payment of wages in legal tender have undoubtedly tended to restrict employment by preventing the organisation of many co-operative labour societies.

resources can crush his smaller rivals. The small tradesman and business man is everywhere being driven into the ranks of the wage-earners by reason of his inability to command credit. And with the increasing amalgamation of our banking companies, this process will continue at an increasing rate. Our banks are forced to discriminate between the wealthy and the small client and always against the poorer. *The system compels it.* The most startling evidence of this power of bankers to create monopolies and crush out rivalry is seen in the United States with its steel, oil, sugar, lumber, match, and similar trusts!

Commenting upon Governor Wilson's assertion that "the greatest monopoly in America is the Money monopoly" (which was sneered at by the organ of Mr J. P. Morgan, the New York "Times"), that well-known democratic daily, the "New York World" (June 17th, 1911), said:—

"The same day the 'Times' ingeniously asked Governor Wilson what he meant by 'the money monopoly,' the newspapers announced that Mr Morgan's Bankers' Trust Company had bought from Mr Morgan's Equitable Life Assurance Society its holdings in the Mercantile Trust Company, and that by this transfer the aggregate assets of the banks dominated by J. P. Morgan & Co. exceeded $1,000,000,000. This $1,000,000,000 is not Mr Morgan's money, but it is in the hands of the Morgan interests, which say who *can* borrow it and who *cannot* borrow it, how it shall be used and how it shall not be used.

"When Mr Morgan took over the Equitable from Thomas F. Ryan, he paid more than $2,500,000, for stock that can legitimately earn only $3,514 a year, but what he really bought was control over the Equitable's $400,000,000 of assets and $80,000,000 of surplus. After this control was acquired, the statement was made in one of the financial newspapers that no man could borrow $1,000,000 in New York, *whatever the security*, if Mr Morgan objected to his having it. No doubt this is true, for there are few independent bankers anywhere who

would care to incur the hostility of the money trust that has been built up by the Morgan-Standard Oil interests and their allies.

"The 'money monopoly' controls more than money and credit. It controls oil and steel and railroads and all manner of corporations by means of interlocking directorates and a well-defined community of interest. Its political activities are as far reaching as its financial activities, working through railroad lawyers, corporation lawyers, country bankers and political bosses.

"In fact, there has been created in Wall Street what is practically a central bank, more formidable than the old United States Bank ever was or could be, wholly irresponsible in its use of power except as restrained by the merely technical provisions of the banking laws, and more dangerous politically than a regiment of Nick Biddles such as President Jackson crushed."[1]

Interest charges tend to reduce Wages

There is also another point to consider. The cost ot money is a serious matter to all employers. The more one pays in interest and rent—other things being equal—the less there is for wages and profits. Our railway companies are all heavily handicapped in comparison with those of foreign lands, with debts originally incurred in the purchase of land and rights of way from the rapacious owners. The unrestrained greed indulged in by members of the House of Lords and other landlords, and permitted by our complaisant rulers, during the period of railway construction in this country, is one of the most amazing chapters in our past century's history!

But great as were these robberies by the land-owning class, the financial system which immortalises them is still more exacting and more onerous. For the debt becomes permanent, and the public must go on age after

[1] "Nick" Biddle was president of the United States Bank whose Charter President Andrew Jackson refused to renew. When he told Jackson he would ruin him politically, Jackson threatened to hang him as "high as Haaman."

age paying—not the debt—but an annual tax for forbearance on the part of the debt owners to allow the nation to postpone indefinitely the payment of the debt.

Important as is the Land question, burdensome as is our feudal system to the toilers, our currency system is far more important and far more oppressive.

Taxation injures Labour and reduces Employment

You, sir, are sincerely and enthusiastically endeavouring to raise the conditions of the poorer classes. No one doubts for a moment your zeal and honesty in the measures which you have proposed for the relief of sickness, of old age distress, of unemployment. And yet it seems to us evident that you do not realise that all these measures must tend—under present conditions—to make the lot of the wealth-producers harder and harder!

The increase in taxation means an increased demand for money, which tends, therefore, to increase the rate of interest and this tends to check enterprise and industry, and augment the evils of unemployment. The greatest load that labour has to bear is usury,—that is the payment for the use of things, whether it be money, land or machinery,—a system forbidden by every religion, and denounced by every great moral teacher from Moses to John Ruskin! And the rate of interest on money determines the rate universally throughout the field of wealth. Increase of interest rates, diverts a larger proportion of the annual wealth produced, from the producing classes to the non-producers. *The Money and Land Monopolies are the parents of Usury!*

Industry is the Slave of Finance

Consider for a moment the condition which the system imposes upon the world's wealth producers. Prometheus—the creator of all wealth—finds himself chained to his rock more securely than ever. Formerly he imagined that if he owned the rock, he might free himself from his unfortunate plight. But to-day he realises that such owner-

ship brings no relief. What though he owned the land? Is he not bound hand and foot? Do not our laws demand that he pay his debts—his taxes—in a rare and expensive commodity, the natural store of which cannot be increased by labour, no matter how prodigious nor how arduous? Where and how is he to obtain sufficient gold? What consolation is it to him to know his chains are golden? Were they made of iron, of some baser metal, corrosion would set in and gradually weaken the links, and time—the great liberator—would set him free! But man's laws have over-ridden Nature's, and have immortalised debt.

The State alone, exacts in taxation each year, more than all the legal tender existing, and Prometheus finds himself still a prisoner, a hopelessly insolvent debtor, who must go on paying in interest charges, all he can ever hope to earn, and his descendants after him, because he is forbidden to pay the principal in any but one of the scarcest products nature yields. One can fancy Prometheus saying in his despair, as he points to all the cities and industries of the world, "Destroy these temples, and in a few days I will build them up again! But when you ask me to pay you tribute in a commodity which nature will not reproduce, which my labour alone cannot command, you keep me a slave and can strip me of all I can ever earn! Choose for your debt-paying commodity, anything in which the product is proportional to the labour—corn, or cotton, any articles of manufacture, buildings, bridges, locomotives, steamships, air-ships—and I'll become free in a generation!" Prometheus does not understand that these legal tender laws are the cause of his bondage. He hits out blindly and wildly with strikes, riots, and "Right of Work" Bills! Poor fool! His masters are only too willing to bequeath him the right to work, so long as they can retain the right to control money, or land, or anything essential to him in his work. He can have his right to work as a monopoly so long as they retain their right to tax him!

The commodity chosen as the legal debt-paying instrument is one that this country does not produce. Gold is not like coal, oil or corn (so far as we know) a constantly re-created product. One cannot plant gold with any

hope that Nature will some day give golden harvests of the yellow metal. As the ancients said of money, "*it is barren.*" Our gold supplies are the result of accidental discoveries which bear no conceivable relationship to the wants of mankind—which lead to the production and exchange of consumable things—the necessaries of life, the real wealth of the world. Debts arise by reason of the production and exchange of necessities, and our laws place a barrier to restrict what should be the regular and continuously increasing volume of trade, of industry and employment. Isn't it laughable that the finding of a piece of yellow metal in some far off wilderness, will increase the demand for cotton goods from Manchester, for woollen goods from Bradford, tin plate from Wales, cloth from Leeds, steel and iron from Glasgow, cutlery from Sheffield, ships from the Clyde; will increase the hum of the mills, lessen the number of our unemployed, bring increased happiness to myriads of homes; will cause more marriages and increase the birth rate! And yet not a single tool or machine or article of any description entering into these manufactures, contains or employs in their operation, one single gramme of gold! And, if all the gold of the world became suddenly transmuted into brass, it wouldn't affect the utility or nature of a single article needed for maintaining life in comfort and enjoyment. Isn't it wonderful? Why then this supreme importance of gold? Why are the lives and fortunes of individuals and nations—why is civilisation and progress itself—bound up so completely with this comparatively useless metal? The answer is apparent. The necessity is of our own creation. Money is an invention—a contrivance; but the Governments of the world have decreed that it shall be limited by the supplies of gold. It is not Nature's work, but man's. And although man's laws have interfered with man's freedom, they cannot change the results of Nature's laws. If our laws decreed that bread should be made of stones, stones would not become any more digestible, nor any the more suitable for food, than at present. We talk of our Free Trade system! How can trade be free when the mechanism of exchange is

monopolised? How can mankind be free when the most essential things for sustaining life, are restricted and monopolised for the benefit of a certain class?

Here, then, is the position. Gold being a comparatively rare metal, and enjoying the legally created monopoly of the sole debt-paying instrument, it is very valuable. The total amount existing universally and available for currency and bullion is estimated not to exceed £1,500,000,000.

The Gold Debts of the World are Irredeemable

The debts of this country alone are far greater. If we add the debts of all nations that are on the gold basis, we have a proportion of debt to gold of many hundreds to one. Prometheus is, therefore, securely bound. The more wealth he creates, the greater are his debts. He cannot engage in a new venture nor protect himself from aggression by a new navy without borrowing, and borrowing something which, but for law, he would never dream of using.

Moreover, he is not merely compelled to borrow all the new supplies of gold, but the same supplies over and over again. The loans created during the last twenty years exceed enormously all the gold existing, and yet the same gold had already been loaned many times over.

This is the game that our money laws permit to be played. A man borrows every conceivable form of capital, but must agree to repay—not what he borrows—but a totally different species which he doesn't produce, viz:—gold. These laws enable the dealer to loan the same capital over and over again, so that the world's borrowers can never repay the principal. Our financiers lend not only gold, but their promises to pay gold, which are never fulfilled, from which they draw the same rate of interest as gold.

An Illustration

Some years ago the temperance agitators of New York, enacted a measure known as the "Raines Law,"

which provided that on Sundays, no publican should be allowed to serve a glass of beer to a customer unless he ordered a sandwich at the same time. It was thought that if a man was compelled to eat a sandwich every time he took a glass of beer, he would remain sober. What was the result? Drinkers were duly supplied with a sandwich to each glass of beer, and the tables were rapidly filled with unconsumed food, whilst the drinking went merrily on. At last, imitation sandwiches were provided—made of painted wood, and actually charged for. The only result of this temperance measure was to enhance the profits of the publican!

We have here a case somewhat parallel. Redemption of debts in gold is made compulsory, but its scarcity and expense make its use impracticable, except to a very limited extent. Moreover, it is not really wanted. So an imitation is provided—promises to pay gold—which, in 99 cases out of 100 are never redeemed in gold, and never required to be, but one pays for the substitute just the same! Except for parliamentary acts, gold would long since have been relegated to the arts to which it properly belongs, instead of becoming the basis of all trade and commerce.

Our fraudulent Price Standard

The Government is fully aware of the great distress now prevalent throughout the country, occasioned by the recent advance in the price of food. As is usual in such cases, this increased cost of living has not been accompanied by a proportionate increase in wages, the result being serious inconvenience and suffering amongst the wage-earning classes, which constitutes one of the chief causes of the recent strikes. One of your associates—Mr Winston Churchill—is reported to have said that this rise in prices is due to the overproduction of gold, which has reduced the purchasing power of money.

Although the facts do not at present bear out Mr Churchill's contention—the continued low prices of gilt-edged securities and the comparatively high rates of

interest prevailing being inconsistent with this theory—it is evident to the mind of at least one conspicuous member of the Cabinet, that our monetary standard is liable to vary from natural causes sufficient to create hardship and misery among the poorer classes. This fact alone should prompt any intelligent government desirous of removing obstacles to social and national well-being, to lose no time in investigating the phenomenon and endeavouring to ascertain whether the evil is irremediable or not.[1]

Every economist knows that gold has undergone many serious and sudden fluctuations in the past—which may and most probably will occur again and again in the future. Professor Jevons states that between 1789 and 1809 gold depreciated 46 per cent., from 1809 to 1849 it appreciated 145 per cent., and between 1849 and 1874 it again depreciated 20 per cent.!

It is safe to say that were our legal standards of length, weight or capacity of as unscientific a nature as our so-called standard of value, our engineering and industrial arts would soon be paralysed, and the government responsible for such Acts swept away by revolution. Moreover, if such dire results can follow from a *natural* increase in the gold supplies, it follows that equally disastrous effects can also be produced by the artificial manipulation of these supplies.

What is there to prevent a group of financiers cornering a large amount of gold for the purpose of bringing down the prices of shares and goods and then, having purchased what they require, unloading and flooding the gold market in order to enhance prices? It is a game that has been played again and again and always with the certainty of success. The industries of the world have become the shuttlecocks which our international financiers play with by means of the golden battledores provided

[1] One of the amusing features of currency commissions in the past is that the members appointed have usually consisted of bankers and money lenders! One searches in vain for the name of a single victim—a borrower! Why not commit the framing of our licensing laws to the hands of the brewers and that of our education laws to the clergy?

by the nation's legal tender laws. It is now well known that the Amercian currency panic of 1907 was deliberately instigated by a group of Wall Street gamblers who emerged from the storm and havoc they created, enormously richer than when they started it. Similarly the panic of 1893 was also a regularly organised affair for the purpose of forcing the Amercian public to consent to the repeal of the Sherman Silver Bill, which the bankers detested. It is true that our London Bankers have not yet fallen to the depths of unscrupulousness existing in the United States—for which the British public should be truly thankful! But the same power for evil exists here and to as great a degree as in New York. Moreover, with the rapid amalgamations of our banking institutions such as have taken place during the past twenty years, it is highly probable that within the next twenty years we, shall see the entire banking business of England controlled by a single board of directors. And when that day arrives there will be nothing that these gentlemen cannot do with the industries of this country—even to the extent of confiscating them. Bankers after all are human, and since no legal limit has been set to the profits and dividends which they may make, why should they hesitate to profit by the opportunity afforded them by law? Why should we expect from them a higher standard of morality, a less degree of rapacity and greed, than exists among our barristers for instance, or any other profession?

Are not many of the vast fortunes owned by the World's financiers due to the power to practically confiscate wealth which the control of money and credit affords?

A Minimum Wage

Just here it may be well to point out the absurdity of trying to fix a minimum wage in terms of our present monetary system, which many of our well-meaning but ignorant reformers are endeavouring to achieve by an Act of Parliament. Until a more stable and scientific

monetary unit has been established, no minimum wage can be defined which would be satisfactory for any long period. The vital question which concerns the wage earner is. what amount of the necessaries of life—food, clothing, shelter—will his labour products entitle him to. At present this return is subject not only to the law of supply and demand for the necessities themselves, but also to the fluctuations in the purchasing power of money. We commend to the earnest consideration of the labour and socialist members, this very important point.

The Unearned Increment of Money

There is another point to consider. Whence comes the power of purchasing conferred upon legal tender—whether gold or paper? In an island where there were but a few settlers, isolated from all trading communities, gold would have little or no value. It would command far less attention than fruit or vegetables. Only in industrial and trading communities does it acquire this power to purchase goods—a power due primarily to law and custom, to the willingness of wealth producers to accept it in exchange for real wealth. In short it is society—particularly the industrial portion of society—that confers upon gold its seemingly mystical, magical power. No single individual, nor group of individuals, whether they be bankers or mine-owners, can create this. It is social in its origin, and if there be any justice in the plea of giving to society the so-called unearned increment in the land, to society should belong the unearned increment conferred upon legal tender. Surely we have sufficient proof of the contention that the value of money is due—not to the material of which it is composed—but to the community at large, in the history of silver and its demonetisation, as well as the numerous examples of inconvertible paper currencies. No sane man will deny that if gold were universally demonetised by the nations now using it as legal tender, every gold-mining industry would cease and the metal

fall to a mere fraction of its present value. The Governments have, however, deeded away this inestimably valuable birthright of their subjects to gold-miners and credit dealers, without any consideration whatever. This world hails its industrial potentates as princes and kings—Copper Kings, Iron Kings, Oil Kings, and Cotton Kings, but the Money King is in truth the King of Kings! To him every knee must bow. For he holds the destinies of nations in the hollow of his hand. No nation can declare war except with the consent of the financiers. And having entered the lists, it is the financiers who determine when war shall cease, and they are the final dictators regarding the terms of peace.

Redemption of Money

A vast amount of superstition and ignorance prevails regarding the question ofthe redemption of money. Money is redeemed every time it is exchanged for commodities or services, and it is *finally* redeemed when it returns to its issuer in payment of services. If the Government issues so many £5 notes, and pays them to its military and naval servants, for instance, and these notes, after circulating, are repaid to the Government in settlement of taxes or duties, they are finally redeemed and probably destroyed, and new ones issued But there is no sound or sane argument to prove that paper moncy must necessarily be redeemed in gold—or in any arbitrarily chosen commodity. Moreover, final redemption necessitates constant re-issues to meet the needs of trade. *So long as production and exchange last, so long must money keep circulating. Final Redemption means destroying the currency and curtailing trade.*

Suggested Remedies

What then is the remedy? Anyone approaching this question must do so almost with fear and trembling. Any attempt to apply a drastic remedy would precipitate

disaster. The edifice is so unstable that the mere discussion of the subject is liable to cause a commotion. And yet the building cannot be left as it is. It is a menace to the nation, and must sooner or later collapse. The bankers themselves recognise this, although whilst conditions remain favourable, it brings them regular harvests of wealth. Their proposal is that the Government should pay off the national debt to the Bank of England of £11,500,000 in gold, which would increase the gold reserves to this amount.[1]

But it is evident that this is—to use an Americanism —"a pill to cure an earthquake"! What advantage will it be to the industrial world to increase the bank reserves whilst they remain open and free for the whole financial world to raid? So long as we maintain the Bank Charter Act, compelling the bank to pay gold on demand without discretion, so long shall we have these frequent—and often violent—fluctuations in the bank rate.

Why the wealth producers of this country should be legally compelled to maintain the purchasing power of gold at its high level, it is difficult to understand. And if our bankers were legally required to retain adequate gold reserves, they would be the first to object to the gold basis. At present, as we have stated before, the public have to take all the risks, while the bankers and money lenders take all the profits. *The mere increase in our gold reserves offers no permanent relief.*

Lord Goschen's plan of issuing £1 notes in place of sovereigns is a much better proposal, inasmuch as it would tend to accustom the people to the use of paper money—which was one reason why the bankers and Lombard Street bullion dealers killed the proposal in its infancy. It would prepare the people for what must inevitably become the nation's currency in the event of a great crisis. It would tend to destroy the superstition concerning the necessity of gold for currency purposes—a superstition which our laws have carefully fostered.

[1] At present the Bank is allowed to issue bank notes equivalent to this amount, without any gold reserves.

The Money of Civilisation

Paper money—the money of civilisation—is better known and understood in foreign lands than here, and consequently those nations are better prepared to face an emergency than we are. The suspension of specie payments could occur in countries like Germany and the United States with but little disorganisation to their domestic trade and commerce. With us it would mean widespread ruin and desolation.

Lord Goschen's plan, however, was with a view to strengthening the reserves, not to provide the country with an object lesson. No doubt this would bring, perhaps, 40 or 50 millions of sovereigns into the Bank, which are at present in circulation, but the same objection may be raised as before. *So long as we compel the Bank of England to pay out gold on demand; so long as we maintain our free gold market; so long shall we be liable to a very fluctuating bank rate and to have our gold taken abroad.*

No Hope of Redemption from Gold Discoveries

Many look to future gold discoveries to save the situation. Since 1882, there has been a great expansion in the production of gold. From an annual output of about £20,000,000 it has risen to over £90,000,000. So far, there are no indications that this output can be much increased. But great as this is, it does not keep pace with the growing needs of trade, due to the increase of population, and it is more than offset by the extended uses to which our financiers have put it.

All hopes which these increasing discoveries may have raised in the minds of the wealth-producers, have been blighted by the adoption of this standard by the Eastern nations,—Japan, China, India and Egypt—countries where the tendency is to bury the metals.

At any and all costs, the maintenance of the high purchasing power of gold is insisted upon by the world's usurers. The necessity for and power of the loan must be maintained, though the world fall.

"It is a somewhat remarkable circumstance" (says a writer in the "Quarterly Review," p. 538, April 1908) "that the years which have witnessed the largest production of gold hitherto recorded, should have been years of extreme monetary stringency. Two of the principal causes which have contributed to this result—the expansion of foreign trade and the vast multiplication of Stock Exchange securities—have already been indicated. The other important influences which have rendered the increased gold production of little avail in lightening the strain on the money markets, now deserve attention."

How Gold is Absorbed

"The consumption of gold is a question which raises many instructive considerations. Reliable estimates place the value of the world's production of gold during 1906 at about £80,000,000, and from the summary of the coinages of the world contained in the Report of the Royal Mint for 1906 it appears that during that year gold to the value of £68,710,000 was coined, thus leaving a balance of about £11,400,000 uncoined. Apparently, therefore, the great bulk of the annual production is coined, but this by no means implies that there is a corresponding addition to the world's stock of gold coin in use for monetary purposes. Much of it is absorbed by the manufacturers of jewellery and the arts, and much is simply hoarded. The United States Mint Bureau estimated the world's consumption of the precious metal in 1906 for these purposes at about £25,300,000, and this estimate will be generally accepted. Of course, the amount varies with the state of trade, but £18,000,000 to £24,000,000 is a fair estimate. The United Kingdom uses from £2,500,000 to £3,500,000 per annum in this way. Then there is the other channel of consumption, the hoarding of gold by individuals, banks and governments. India is probably the greatest of all the hoarding countries; the tide of gold and silver has been flowing into India for centuries. For the forty-eight years ending March 31st, 1907, India imported and retained for hoarding

and the arts, gold to the value of £162,500,000, or at the rate of nearly £3,400,000 per annum. Egypt, again, in common with all Oriental countries, has always hoarded gold; but, until the development of her cotton-growing industry had reached its present important stage her annual absorption of the precious metal was not appreciable. Now, however, it has assumed formidable dimensions, and the Egyptian gold drain has added another anxiety to those which have hitherto attended the protection of our gold reserves. It is interesting to recall that, in acknowledging the presentation of the freedom of the City of London in October last (1907), Lord Cromer alluded to this question, and pointed out that a great deal of the money that goes to Egypt never comes back again. During the past four years the imports of gold into Egypt amounted to £13,000,000 more than the exports, or at the rate of £3,250,000 per annum. As to what became of this vast quantity of the coin his lordship said it was impossible to give an answer. A small quantity found its way into the interior of Africa, and a great deal was converted into jewellery; he was informed that no less than one and a half to two millions were thus disposed of in 1906. Hoarding was carried on to an extent which appeared almost incredible to Europeans, of which he gave a few instances. A short time ago an Egyptian gentlemen died leaving a fortune of £80,000, the whole of which was in gold coin in his cellars. Then again, Lord Cromer had heard of a substantial yeomen—a village sheikh, as he was called in Egypt, a class enormously increased in wealth and prosperity in recent years—who bought property for £25,000. Half an hour after the contract was signed he appeared with a train of donkeys bearing on their backs the money, which had been buried in his garden. Lord Cromer added that on the occasion of a fire in a provincial town no less than £5000, was found hidden in earthen pots.

"Then, again, the demonetisation of silver has thrown a heavy additional burden upon the gold stock of the world, and a large proportion of the increased output

has been absorbed by the great countries which have adopted the gold standard since 1872. These include the United States, Germany, Austria-Hungary, Italy, Argentina and Mexico."

The Banks of England and France—Superiority of the Latter.

It has been suggested that we adopt as our model the Bank of France, undoubtedly the strongest bank existing, and one that meets the commercial and industrial needs of the French nation better, more efficiently and more economically than would any similar financial institution in the world. Like the Bank of England, the Bank of France is a private institution, and owes its existence also to a Charter which is renewed from time to time. *But the French Government has only allowed its Bank's existence and monopoly to continue so long as it served the public interests, which are considered by them to be superior to those of the bank shareholders.* Its capital is one-half of that of the Bank of England. The governing body is chosen by the State, and by the shareholders. The Governor and two sub-governors are appointed by the State, and are removed at the pleasure of the Government. There are fifteen regents and three censors, chosen by the shareholders. Of the fifteen regents, three must be selected from the class of receivers general, who are connected with the Government and the management of the taxes. Five of the remaining twelve must be taken from merchants and manufacturers and leading business men in Paris. The three censors must be chosen from among men engaged in business and manufacture, and are supposed to specially represent the industrial interests of France. Nothing is done without the presence of the censors, who have not the right to vote, though they may speak and place their opinions on the minutes of the deliberations. The persons chosen by the State are bound to see that the business of the bank is carried on for the public's advantages. It is

their business to see that the statutes of the bank are not overstopped, and that the interests of trade and commerce are attended to. It is from them that all proposals to alter the rate of interest appear almost invariably to proceed.

At each renewal of its Charter, the Government obtain some concession for the public benefit. At the time of the last renewal in 1897, the Government obtained the following valuable concessions on behalf of the public:—

Remission of all interest charges on the Government Debt of £7,200,000 due to the bank, and no claim to payment of debt during existence of the Charter.

Whenever the Bank Rate exceeds 5 per cent., the additional net profit gained by the imposition of so high a rate is to go to the Reserve Fund, and not to the shareholders.

Additional branches and offices were to be opened for facilitating the organisation of agricultural credit.

The Bank of France manages all business connected with the French National Debt and issue of State Loans, free of charge, and it is estimated that the State reaps an annual profit equal to £680,000 from the bank.

The Bank of France is by far the strongest and best-managed bank in the World. It dates from 1803, during which period it has never stopped payment, nor met with any serious reverses. During the French crisis of 1870, when France lay at the feet of the German Emperor, when a foreign army was in possession of her capital, the bank continued its business, and its Bank Rate never exceeded 7 per cent., and only reached and held this figure for twelve days, notwithstanding that in 1870, on the news of the first French reverses, the bank paid out bullion to the extent of £35,000,000 within a few days. During this same period the Bank of England rate stood at 9 per cent.! The Bank of England rate has changed 423 times in sixty-two years, whilst that of France has altered only 111 times during a similar period.[1] Again and again the

[1] These facts are contained in the "Bank Rate," by Arthur Lee, Esq.

Bank of France has come to the support of the Bank of England to save it from a crisis, and has stood like a rock steadying the finances of Europe.

Had England experienced any such crisis as France in 1870 our banking system would have toppled down.

Contrast this record with that of the Bank of England. With twice the capital, it maintains its reserves with the greatest difficulty, and by the most frequent changes in its rate of any bank in the world. It is run primarily for the benefit of its shareholders, and although it has the use of the Government balances, it charges the nation for the management of the National Debt and Government Loans. It still draws interest on the loans made to William III., over two hundred years ago, and makes a profit on the uncovered notes issued against the Government Debt. The Government have no voice whatever in its management, and the nation is entirely at the mercy of its governors, who alter the Bank Rate whenever they please. It pays the Government only £180,000 a year for its privileges. It has had to suspend payment—or what was equivalent, petition for a suspension of its Charter Act—three different times during the first twenty years of its existence. Its stock of gold is the ultimate gold reserve of the country. How much of its reserves belong to other banks the outsider is not allowed to know, as it ceased to publish returns separating these since 1875. It inflicts far more injury upon British Trade than all the Foreign Trade Tariffs of the world combined. For every sovereign it gains as profit from loans and interest charges, it suppresses many pounds' worth of trade. It limits production—not to that required for satisfying people's needs—but to the capacity of its antiquated, inefficient and insufficient machinery. It is no more adapted to properly fulfil the real business needs of the nation to-day than the stage-coaches of last century are fitted to meet our present-day transportation requirements.

There is one and only one answer to be made to those who object to these frequent fluctuations in the Bank Rate, viz.: that no remedy can be found so long as we

maintain a gold currency and a free gold market. The Bank of France maintains its enormous note issue—something like £250,000,000—and a comparatively steady Bank Rate, by reserving to itself the right to redeem credit in either gold or silver, when redemption of credit is demanded in the precious metals. This option has saved the Bank of France and the French nation from financial panics and wholesale bankruptcy again and again. Nay more, it has saved this and other countries from similar disasters by enabling the Bank of France to come to the rescue of other banks when they have been compelled to hoist signals of distress.

Bimetallism, however, is not the scientific solution of the currency problem. All that can be said for it is that it is safer and saner than gold monometallism, and its benefits to France and to the world have been of incalculably greater value than the system which has replaced it in the United States, India, and elsewhere.

Is Gold Necessary?

But why should the industrial progress of the world be constantly held back by this employment of gold? Why should the efforts of mankind to reach a greater degree of physical comfort and higher plane of civilisation be impeded by this obstruction? Is gold really necessary for trade? Is it the most efficient, the safest medium of exchange? are we necessarily bound to use it as the basis of currency? Does it possess such physical properties and qualities which make it essential to commerce—such as those which make wheat and sugar, iron, steel, coal and copper, indispensable to mankind? If to-day an impartial body of scientific men were asked to suggest a scientific currency system for a new State, would they propose any of the existing systems? Would they not, after first noting the chief functions to be fulfilled by the currency, outline such a system as would best fulfil those functions with the least possible expense and friction? And since the chief function of money is to facilitate commerce, would they not avoid any system that lent

itself to the manipulation of speculators, or could be monopolised in any way?

Why Paper is better than Gold

What then are the properties possessed by gold which its advocates assert are the prime causes for its adoption? We are told that its divisibility, portability, and non-corrosiveness are the chief physical qualities which enable it to function as money. To which we reply that paper possesses these to a higher degree. Then we are told that gold is steadier in value than any other commodity—a statement which cannot be substantiated. But since steadiness of value is the desideratum this can best be obtained by a currency which can be immediately and inexpensively increased when required, so that the supply can keep pace with the demand. And paper money is better adapted for this than either of the precious metals.

The fundamental difference between a gold and a paper currency is summed up as follows:—

With gold, the volume of trade and amount of employment are limited by the quantity of money circulating.

With paper, the quantity of money circulating is determined by the demands of trade. And since trade results from satisfying human wants, its volume would, under a scientific currency system, increase until human wants were fully supplied.

The difference between these two may be illustrated by comparing a door when it is "on the chain," and when it is free. In the one case the length of the chain limits the space the door can be opened, in the other, the opening is limited only by the width of the door. *And gold is the chain limiting production and employment.*

The Functions of Money

But we are told by orthodox economists that money (*i.e.* legal tender) must be *per se* a "store of value," and since gold "contains great value in a small bulk," it fulfils this condition most eminently. The answer to this is that,

according to their own definitions, money is an invention to overcome the difficulties attending barter, and they tell us that when money is taken in exchange, it is not for consumption, not for what the money is, but for what it will purchase. Men take it to spend, to pay away to others in exchange for the consumable things they need. Hence its name "Currency," that which runs like a stream or current.

Now when we exchange goods for gold, even coined, we are simply bartering, and since the "stored value" in the coin is a kind of value we do not require, its use for money is as unnecessarily extravagant as that to which Sir Walter Raleigh and other gallants are said to have put their gold-braided cloaks—to keep a vain old woman's shoes dry. Scientifically speaking, money is not a commodity, no more than a promissory note or bill of exchange. It is, like these, merely a means to an end, and the simplest and least expensive means are usually the best. To associate money with a commodity—as governments do when they make gold legal tender—is to greatly hamper trade. No one but a fool would insist upon a bill of exchange being an engraven tablet of gold of a value equivalent to the sum represented by the bill. A golden sovereign, like a one pound note, is merely the evidence of a debt or the right to one pound's worth of any saleable commodity required by the money owner. And the sovereign is of no more utility in this respect than the one pound note. Golden coins are greatly hampered in properly fulfilling the necessary functions of money. They are subject to two laws, first, that governing the commodity itself—which is the law of supply and demand for gold for the Arts—and secondly that of the supply of and demand for gold for currency purposes, These two laws are directly antagonistic, and when the metal is under the control of the one, it is thereby prevented from properly serving in its other capacity. Gold, like man, cannot serve two masters.

The most effective answer is, however, that 98 per cent. of the world's currency is already paper. And since paper-money and credit now function universally as the

medium of exchange, why use gold at all? Why cannot the governments of the world set the pyramid on its base where the economic system will be stable, and the workers of the world henceforth be safe from these frequent storms and troubles which depress trade and create unemployment?

This brings us to the last and greatest obstacle erected against industrial freedom, which the economists and apologists of existing conditions have raised, and which has hitherto been used as an unanswerable argument against those who wish to dethrone gold.

A Fundamental Financial Fallacy

They tell us we must have a standard of value and only a valuable commodity—the value of which remains fairly constant—can fulfil this function to any degree of fairness. Gold, they assure us, is the only commodity capable of performing this in addition to the former mentioned functions required by money. If we take the orthodox definitions of exchange value—which is the only kind of value to be considered in this connection—it is difficult to give an intelligible meaning to the term "standard of value." Exchange value, all economists are agreed, is a relation—the quantitative relation existing between equivalent exchangeable commodities—and it is expressed by a ratio. When two commodities are exchanged the one for the other, they are exchanged in certain agreed quantities, by number, weight, or volume, and the numbers representing these quantities constitute the ratio of exchange and indicate their value. If one ton of iron is exchanged for one ounce of gold, the value of iron to gold is expressed by the ratio one ton to one ounce.

Now what possible meaning is there in the term "standard ratio" or "standard relation"? If, as Jevons said, value is not intrinsic, and that those who speak of "intrinsic value" have no hope of ever grasping the science of value, if exchange value is—as the same authority distinctly defined it—a ratio, then *when people talk of a Standard of Exchange Value they are talking nonsense!*

But what is it that determines value—apart from utility? Is it not the ratio of supply to demand? Does not the comparative scarcity or abundance of a thing determine its value? Now how can the adoption of a given weight of gold determine its value? Economists are all in accord that value is not the physical property of a commodity, that it is not like density, porosity, ductility, colour, or even weight. Here is an ounce of gold. To-day its value is said to be represented by a ton of iron, by twenty bushels of wheat, by four tons of anthracite, by two weeks' wages paid to a skilled mechanic, etc. To-morrow, owing to some sudden discoveries of fresh gold fields or the announcement that chemistry has at last discovered the Philosopher's Stone, this same ounce of gold is worth only one fraction or less of that of to-day. What sense is there in talking of a commodity functioning as a standard of that which has nothing whatever to do with the single commodity selected! Would anyone but a lunatic take an infinitesimal fraction of any other commodity and set it up as a standard of the value of—not merely all other things, but even of—that class to which it belongs? Suppose we take a half-pint of water as the standard of the value of water, or a pound of iron as that for the value of iron? Would not the question at once be asked, "At what particular time and place are we to take the value of your standard?" When we select a metallic bar as our standard unit of length or a certain mass of platinum as our unit of weight, we limit the first by a fixed temperature and the latter by a certain altitude above sea level, since the length of a metal bar varies with temperature and the force of gravitation with altitude.

Now when you set up your so-called "Commodity-Standard of Value" without any limitations or qualifications as to time and place, you are setting up a most variable and elastic standard, and one which lends itself to the jugglery and trickery of any set of knaves who choose to take advantage of it. For by reducing the gold supplies (by hoarding or taking so much out of

circulation) they can increase the value of your standard, or *vice versa*, by putting more into circulation, nay, by putting a substitute, such as Credit Notes into circulation—they can reduce its value for the time being.

John Stuart Mill assures us that if every sovereign in this country were replaced by a one pound legal tender note and gold withdrawn, the note would be precisely of the same value as the sovereign. *This difficulty, this obstruction, therefore, falls to the ground.* Paper money possesses every attribute necessary for a safe and sound currency. It can even be made as oppressive and as harmful to industry as gold. A Government that restricted the amount issued to some fanciful figure, regardless of the needs of commerce, could make the money unit of enormously greater value than our sovereign, and by doing so ruin half our trade.

That a monetary unit, by which values are computed and prices expressed is essential, goes without saying, but such a unit need not be represented by any fixed quantity of any commodity. Indeed, it is impossible to employ a commodity for this purpose without inflicting injustice. If all the gold, silver, and copper of the world were annihilated, we could and should go on using the pounds, shillings, and pence system without inconvenience, expressing and representing these coins by paper notes.

"What is a pound sterling?" asked Sir Robert Peel. "The legally established weight of gold of a certain degree of fineness," say our financiers. We, on the contrary, maintain it to be a certain amount of purchasing power determined by the available supply of and existing demand for gold and credit. The purchasing power of gold is determined far more by the credit substitutes in circulation than these by gold.

In 1864 the American paper dollars exchanged for gold (according to the legal value nominally affixed to gold) in the ratio of nine dollars in gold and ten dollars in paper! Which was the dollar, the paper, or gold? If

gold, what was the paper, since the paper money was inconvertible and bore no legally fixed relation to gold? We maintain that an impartial commission of scientific men would, after careful deliberation, be rationally bound to declare that under the present highly developed and organised state of society, where "an unprecedented trust exists between man and man," a paper money system is the proper and natural system, the cheapest, the safest, the most just, and the one which could be most easily controlled and adjusted to the changing needs of society.

A Scientific Monetary Unit

The framers of the World's legal tender laws were apparently unable to distinguish between a monetary unit consisting of *a given mass or weight of gold* and one representing merely the *purchasing power of that mass.* And yet there is here a wonderful difference, fraught with terrible consequences. For the one means a constantly variable unit, capable of being manipulated to suit the speculator and moneylender, one by means of which, debts may be indefinitely increased. The other would mean a fixed, invariable, and, therefore, honest system. The one allows the unit to vary with the supply of and demand for the commodity. The other limits it by time and place. A single illustration will make this difference clear.

Imagine an exchange circle consisting of—

100 oranges, 200 apples, 300 bananas, 400 figs.

Supposing we are confined to this small circle of exchange, and we are desirous of expressing the exchange relations of these commodities in some satisfactory way that will give accurate results. How are we to do it? First of all, let us remember that *values are ideal creations, not concrete quantities, and can only be expressed in terms of the ideal.* Since values are the exchange relations existing among exchangeable things and are expressed in numbers signifying the quantities in which these things exchange, a *closed* exchange—such as we are considering

—means that the total wealth remains constant, no matter how the exchange relations within the circle vary. For whatever one commodity may lose in its exchange power a corresponding gain is acquired by another commodity. Indeed this is the only way in which we know that values vary. It is as though you had a bushel of sand and divided it into a number of unequal parts, and these divisions were altered from time to time. It would not matter how many divisions you had, nor what the inequality of these divisions were, nor how you varied them from time to time, so long as nothing was taken from or added to the total quantity of sand, it would always remain one bushel.

A rational system for expressing values should, therefore, fulfil this condition, viz., it should provide a constant total for a given quantity of wealth under all the variations in the exchange relations of the commodities comprised within a closed exchange circle.

Referring to our example. Suppose that each group of commodities is of equal exchange power, that is to say, the 100 oranges exchange for 200 apples, or for 300 bananas or 400 figs, and let us take as our unit for expressing values the purchasing power of one of the commodities without limiting it by time and place. For convenience we will select one fig.

Then we have:

100 oranges	=	400 units.
200 apples	=	" "
300 bananas	=	" "

Therefore our total wealth = 1600 figs or 1600 units.
Then:

1 orange	=	4	units.
1 apple	=	2	"
1 banana	=	$1\frac{1}{3}$	"

Now, so long as these exchange relations remain invariable, no error arises and no injustice is done by using the so-called commodity unit.

But, supposing a week later the exchange has altered to the following:—

2 oranges = 1 apple = 4 bananas = 3 figs;

then:

1 orange	=	$1\frac{1}{2}$ units.
1 apple	=	3 "
1 banana	=	$\frac{3}{4}$ "

And our wealth is now expressed as follows:

100 oranges	=	150 units.
200 apples	=	600 "
300 bananas	=	225 "
400 figs	=	400 "
		1375 "

The total value of our 1000 commodities, instead of being 1600 units, with which we started, has fallen to 1375 units!! That is to say, without the slightest physical change having taken place in these commodities, the number and variety remaining exactly the same—and merely because of a variation in their exchange relations—our wealth has shrunken nearly 14 per cent.! This is the inevitable result of attempting to employ a commodity as a standard or unit of value!

Let us now take the *purchasing power* of the fig, limiting it to the time and place when and where we commenced the system.

We then have in the beginning the same conditions, viz.:

100 oranges = 200 apples = 300 bananas = 400 figs,

and our unit being the value of 1 fig at this time and place, our total wealth = 1600 times the value of 1 fig at this time.

Our total wealth in this example must always be expressed by 1600 so long as the goods remain constant. Now, suppose a similar change takes place in the values of these things as before:

2 oranges = 1 apple = 4 bananas = 3 figs.

Since

$$100 \text{ oranges} + 200 \text{ apples} + 300 \text{ bananas} + 400 \text{ figs} = 1600 \text{ units};$$

then under the last variation we have

100 oranges	=	$174\frac{6}{11}$ths.
200 apples	=	$698\frac{2}{11}$ths.
300 bananas	=	$261\frac{9}{11}$ths
400 figs	=	$465\frac{5}{11}$ths

Therefore:

1 orange	=	1.75
1 apple	=	3.49
1 banana	=	0.87
1 fig	=	1.16

Consider now the great difference between these two results.

With Commodity Unit.				With Ideal Unit.			
1 orange	=	1.50	units	1 orange	=	1.75	units
1 apple	=	3.00	„	1 apple	=	3.49	„
1 banana	=	0.75	„	1 banana	=	0.87	„
1 fig	=	1.00	„	1 fig	=	1.16	„

An Insidious Swindle

Suppose now that each merchant is to be paid an amount of money proportional to the number of units his produce represents. With the ideal unit system, each one will receive 16 per cent. more than where the commodity system is employed! Let us further suppose that one or more of the fruit merchants borrowed so many units of wealth when the exchange relations were started, and had to repay the loan later when the exchange relations had altered, which system would prove the more equitable for registering deferred payment?

Suppose, for example, the orange merchant borrowed 100 units. When the loan was first made the equivalent of 100 units in his produce is 25 oranges, but during the period of the loan oranges have become cheaper, and he must part with a great many more to redeem the loan. Now how much have oranges really fallen? If reckoned

by the commodity unit system (which erroneously supposes that the standard commodity remains constant under all variation in supply and demand) oranges have fallen in the ratio of 400 to 150, which is $62\frac{1}{2}$ per cent. But by taking the purchasing power of the standard commodity at a DEFINITE TIME as our unit—which is called the "Ideal Unit" system—we find that oranges have only fallen in the ratio of 400 to 175, which is $56\frac{1}{4}$ per cent.!

With the commodity system he must part with $66\frac{2}{3}$ oranges, and with the ideal system $57\frac{1}{7}$, in order to discharge his debt, so that the commodity unit system swindles him to the extent of 9 oranges.

The injustice in the above illustration under the commodity unit system would occur then, where a loan or debt had been contracted in monetary units at the time the exchange circle commenced, and had to be discharged after the exchange relations had altered, and the loss to the debtors would be measured by the percentage of rise in the commodity used as the unit.

One of the gravest and most popular errors is the belief that the "value" of money never varies. This is another product of false economic teachings. Because all coins of the same denomination contain the same amount of metal, the unthinking imagine that this fixes their value. But the value of money is its relation to all other goods. If it is found that at the end of a certain period a sovereign buys more of all other goods than at the commencement of that period, the natural inference is that the purchasing power of money has advanced.

When, during the Civil War, the United States Goverment foolishly turned to the moneylenders of Europe, instead of continuing the use of its own credit as currency, the purchasing power of gold in wheat, cotton and other products of that country was comparatively small. An ounce of gold could purchase only from 8 to 10 bushels of wheat and 1 bale of cotton. Years later, when its bonds began to mature, the wealth producers of America discovered to their chagrin that their debts had grown enormously, notwithstanding the high interest charges they had been paying. Instead of redeeming

their obligations at the rate of 8 or 10 bushels of wheat or 1 bale of cotton to the ounce of gold, they had now to furnish from 30 to 40 bushels of wheat and 3 to 4 bales of cotton!

This is an illustration of what has been going on universally. For it should not be forgotten that the only way the industrial world has of earning dollars or pounds is by producing such utilities and commodities as can be exchanged for money. If, therefore, a certain number of gentlemen who deal in bullion agree to withdraw so much money from circulation they can raise the value of their credits, and increase the amount of debts. Nor is it necessary to withdraw gold from circulation. The same results are reached by reducing credit or increasing the demand for gold by extending its use. And this is what has been done during the last forty years. In spite of the great increase in the production of gold, its purchasing power does not grow appreciably less, nor do interest charges lesson. Any hope that Prometheus had of liberating himself by superhuman exertions in increasing the gold supplies of the world and thus cheapening it, has been successfully frustrated.

A Government Banking System

The question next arises to whom should this power of issuing currency be granted? The Banking and Currency Reform League believe that the needs of the people can be best satisfied by themselves, provided the Government puts no obstacles or legal barriers in their way. The needs of commerce no man and no body of men can predetermine. A system of free banking would best provide for this. The Scotch bankers understood this subject infinitely better than those who framed the laws, which practically killed free banking.

But money is so connected in the minds of the masses with the State, that probably not one man in a hundred thousand could conceive of money issued outside of the direct sanction and control of the Government. Certainly if the same honesty, efficiency, and

intelligence characterised all the State transactions which obtains among private individuals and firms, there is no reason why a Government should not establish a great Central Bank with branches in every city, town, and village, issuing Government Notes in any and all convenient denominations against security and approved personal credit—as is the practice among Scottish banks—a system that has done more to develop the Scotch race and character than anything else. So long as the Government makes these notes legal tender for all debts public and private, and accepts them in payment of taxes, there would be no question of their circulating and rapidly superseding gold. A genius like Napoleon would probably make consols the basis of the currency, redeeming them in certain fixed amounts over a period of years, and thus not only providing commerce with a regular and necessary increase of legal tender, but effecting a saving in taxation by reducing the interest on the National Debt through its gradual and final redemption. If our joint stock banks can safely issue £1,000,000,000 of credit, with a total capital of less than 10 per cent. of this sum, surely the British Nation comprising its industries, trade and wealth, could issue £800,000,000—especially if spread over a period of twenty-five or thirty years. If France, with her much smaller trade, finds need for £250,000,000 of paper money, this country could readily absorb three times this amount. Gold would, under such conditions, be driven out of circulation—a consummation devoutly to be wished. For this would tend to cheapen it and serve to provide a larger fund for settling our foreign trade balances.

The Evils of an International Currency.

There is no reason whatever why nations should employ for their domestic currencies the same metal required for international trade. Money, *per se*, never goes abroad. It is the commodity, gold, that travels, and leaves the nation that depends upon it in the lurch when it is most urgently required. Indeed, there

is every reason why nations should each have its own national currency separate, distinct, and inconvertible from the rest. For this prevents the one from injuriously affecting another by withdrawing and thus reducing the amount of its currency and raising the Bank Rate. An international currency, like gold, makes the trade prosperity of one nation an injury to others (and indirectly and eventually to itself) by increasing interest charges. But the most important argument against the present system is that it prevents one nation from raising the condition of its people very much above the level of its neighbours. It increases—indeed it is the prime cause of our present—industrial warfare and cut-throat competition. For what are we all competing? Why are all nations endeavouring to open up new markets—even at the risk of war? Is it not a scramble for gold, for the international legal debt paying instrument? And if gold were demonetised universally and each nation supplied itself with a sufficiency of its own credit notes, would not this scramble instantly cease? Have you ever been in the steerage part of the old Atlantic Liners and then visited the first-class saloon? In the former frequently there was a dearth of food, and there you saw competition in all its horrors! Men lost all but their animal feelings. On the other hand in the first-class saloon you found orderliness, peace, and all the virtues practised. Why? Merely because all knew there was an abundance of both necessities and luxuries. No one need go hungry, whether he came late or early. Transpose the first-class passengers to the steerage and its conditions, and the steerage passengers to the saloon, and within a few days you will see the natures of these two classes completely reversed. Our monetary system is largely responsible for the evolution of the compartively new type of "clever" business man now prominent in all commercial countries—a type characterised by inordinate greed, selfishness, ferocity, cunning, and trickery, men who combine the cunning of the fox with the heartlessness of the wolf and the treachery of the tiger. Note carefully

specimens of our so-called "good business man," the successful promoter, the broker, the captain of industry. Are they conspicuously noble and chivalrous individuals? What are their chief qualifications? Are they not relentlessness in the pursuit of wealth, indifference to the feelings of others, selfishness, greed, deceit, ability to take advantage of the necessities of others? In short, are they not generally those ignoble qualities which every decent man at heart loathes and despises? And yet these are as essential to success in business, which means success in getting hold of money, as strength and cunning were necessary to the steerage passengers who succeeded in getting enough to eat in the years gone by.

How far reaching this subject is, how the trail of the golden serpent is seen over all, is evidenced by the fact that practically every great social and political question is a question of money. For instance, is not the ostensible object of Protectionists and Tariff Reformers to raise the condition of the workers, by erecting an artificial barrier to prevent their being pushed down to the level of those of other nations? Tariff Reformers are unfortunately merely using brooms to sweep back the tide, the cause of the rise of which they cannot understand. If they would turn their attention to this subject of money, of international currency, they would perceive the cause and discover the remedy.

How to Cement the Empire

A currency that cannot be spent abroad, one that is incapable of being melted into foreign coins, is a sure remedy for "dumping." Since the great aim of protectionists is to prevent foreigners from sending in goods which compete with the home producer and exporting our gold, the adoption of a national paper currency would compel them to take our manufactured products instead. This suggestion goes even further, and we offer it to our Empire Builders as an infinitely better scheme than their Preferential Tariffs. A paper currency which is made common legal tender in the Mother

Country and in the Colonies is a far better method of cementing the Empire and maintaining our Colonial Trade than setting up trade barriers. Under present conditions it is true that one nation can inflict serious injury on the industries of another by draining the other's gold supplies, thereby lessening credit and raising the rate of discount. With a paper currency no such injury could be inflicted, for it could be of no use to the foreigner abroad. He would have to exchange it for home products to secure its redemption.

Apart from the needs of trade, there is an imperative reason why the Government—since it has set up the legal method of settling debts—should make it its duty to see that the supply of legal tender is at all times adequate to the demand. For it is in this form that it demands the payment of the taxes it imposes.

You, Sir, collect each year a sum equivalent to the entire volume of the national monetary supply. Although you and your predecessors have greatly increased the amount of the taxes, neither of you have attempted to augment the supply of that in which the taxes have to be paid.

Why Taxation injures Industry

During one of the debates over your famous Budget an opponent said that the land never pays taxes. This is literally true. Neither land, nor beer, nor spirits, nor tobacco, nor any other taxed commodity can pay the tax imposed, for the simple reason that the Government demands none of these things nor will it accept them. The taxpayer must pay in gold or bank credit, and to do this must first find a tenant or purchaser for his land or house or commodities, one who has money with which to pay the tax. It is this that makes taxation so hateful, the difficulty of providing cash—which our laws restrict to an insufficiency. Have you ever considered the enormous injury upon industry which taxation inflicts by the mere withdrawal of a few millions for the time being from the regular channels of trade in which they are circulating? The best evidence of this is seen in the United States,

where the economic effects are usually more spectacular than here. Again and again it has happened that the collection of taxes in that country has so completely denuded the regular trade channels of currency, that the Government have had to re-distribute the amounts collected by opening deposit accounts in various banks all over the country to prevent a financial panic. No Government should impose a tax without first providing enough credit or legal tender for the payment of the tax without reducing the volume existing and necessary for trade.

Alleged Objections to a National Paper Currency

Any attempt to establish a national paper currency would naturally raise a howl of execration from the money-lending class, and those who profit by the present chaotic system. It would be the old Temple of Diana question over again. "Sirs, ye know that by this craft we have our wealth, and our craft is in danger to be set at naught." All the paper money experiments of the past will be called up as witnesses of the impracticability and danger of such schemes. National bankruptcy and ruin will be predicted. Law's Bank, the French Assignats, the Greenbacks and paper money of the American Civil War, the Continental currencies, will all be duly trotted out as warnings.

The answer to all this is, first, that in nearly every instance the paper money issued, actually did the work for which it was created. It saved France from far worse horrors than would otherwise have happened, it enabled the Northern States to abolish slavery, it furnished Napoleon with armies and ammunition, it preserved and finally consolidated Germany, it gave independence to the American Colonies, and finally enabled England to defeat Napoleon.

A Paper Currency is inevitable

Those who decry these monetary experiments should explain what those nations would have done without

paper money under these circumstances? Moreover, *it is as certain as that the sun will rise to-morrow, that in a great crisis, we shall be compelled to suspend our Bank Charter Act and accommodate ourselves to paper money.* Has this not already saved our industries and trade three times in succession since this famous Act was passed? How is it that universally, nations have had to adopt paper and it has always saved them? The question is not between a gold currency on the one hand, and paper currency on the other. Our present currency is mongrel. It is two parts gold and ninety-eight parts unsecured paper—a far more dangerous system than any purely paper money.

No Scientific Currency System has ever been tolerated by any Government

There is still another point. No government has ever yet furnished a rational paper money system designed solely for the necessities of commerce. All the experiments hitherto cited are those in which the legal tender issues had no relation whatever to the needs of trade. They represented the exigencies of the governments during political crises. And the channels of commerce frequently became choked from an inundation. An engineering company could so crowd its works with tools and machines that none of them could be operated. Similarly, currency issued without a corresponding trade demand, tends to hinder and even destroy commerce. This is why banking should be free and conducted in direct connection with the trade and commerce it is destined to facilitate. Moreover every attempt by individuals to establish a rational system—such as Proudhon attempted in Paris—has been forcibly suppressed by the State. Under free conditions, banking would necessarily tend to a mutual or co-operative system, and mutual interests would lead to the establishment of one central bank with branches all over the country. If all merchants and traders kept accounts at the same bank, it is evident that little or no legal tender would be required—except for small change and payment of rates and taxes.

This would make the cheque system a perfect currency and deposits would consist merely of entering cheques to the credit of depositors and debiting the accounts of the issuers.

Like the old Bank of Venice that flourished for 600 years, such a bank's chief assets would be its books. And if our commercial classes understood finance as they ought to, they would soon organise such a system and save themselves the millions they are now paying to private and joint-stock banks for a convenience which they could supply to themselves infinitely cheaper and much more efficiently. One might even go further and show how unnecessary gold is even internationally, as soon as Society becomes thoroughly organised. No doubt, in times past, when no man could trust his neighbour, some valuable money-token was essential. But to-day, that need no longer exists. Suppose the commercial nations of the world established an International Bank at the Hague—say under the protection of the Peace Society. Could not all international balances of trade be adjusted by simple bookkeeping? Might not all the gold coin and bullion of the world be buried a hundred fathoms under the bank where it need never again be disturbed? Might not Prometheus be saved his useless labour of continually digging gold out of one part of the earth and burying it in another? Would not such an International Bank tend to preserve the peace of the world by dethroning gold? We commend this to the consideration of Mr Norman Angell.

Solution of the Money Problem the Solution of many Social Problems

It sometimes happens that in the solution of one problem we find the key to the solution of many others. We venture to assert that this will be particularly true regarding the currency and many of our social problems. Poverty, unemployment, sickness, low wages, labour disputes, the great inequalities of wealth—are not all these questions to be solved by the more equitable distribution

of wealth? And is not wealth distributed by the agency of money, any imperfection in the system of which reflects upon the system of distribution?

In a recent speech you are reported by the press to have said, "There are multitudes of people who do not earn enough to keep body and soul together. On the other hand, there are others who toil not neither do they spin, yet have a superabundance. As long as we have these conditions we will have these outbursts."

Are not these inequalities of condition of which you complain the direct and logical consequences of our Property Laws, Land Laws, Banking and Legal Tender Laws, Heredity Laws and hundreds of Acts, passed by governments for enriching the governing classes and their friends? And are not the measures you and your colleagues are interested in passing, merely attempts to minimise these results by forcing the rich to disgorge?

Surely it would be better to destroy the system which produces these inequalities than to try and patch up the differences by separate measures? Prevention is better than cure. Destroy the twin monopolies of land and money; let the wealth producers have free access to the soil and provide them with a cheap and sufficient currency and a free banking system, and most of these evils of which you complain will pass away. Then trade will be depressed only when the wants of mankind are fully satisfied or when we have exhausted one of the prime factors. Isn't it absurd, that with an abundance of all the natural factors, wealth production is so uncertain and so limited? With an abundance of land, labour and capital our people starve and children go naked and hungry! And there are but two reasons for this. First the land has been monopolised by a few under the sanction of parliamentary laws and secondly, we have added a fourth factor to production, viz., money, which is similarly a legalised monopoly—and the greatest of these monopolies is money, by means of which all the other factors are controlled.

We have now stated our case as clearly as possible, although perhaps somewhat lengthily and tediously, and

we have endeavoured to show that the root of our social disease, and the main cause of the present discontent is our banking and currency laws.

We do not claim that the repeal of these laws *alone* will usher in the Millennium. So long as any factor necessary to production,—land, labour, capital or credit—are controlled as monopolies for the benefit of any single class, so long will there be social unrest.

We cannot hope that any single government in our day will have the power to overthrow all of the existing monopolies. The mere discussion of these subjects "will summon as foes into the field of battle all the meanest and most malignant passions of the human breast—the furies of private interest." Even the Churches will more readily pardon an attack upon their creeds than upon their incomes!

But a beginning must be made, and it is with the hope that you will assist in fomenting a discussion which will open the eyes of the public to the imminent dangers confronting them and which will eventually lead to legislative action, that we are constrained to address you.—

We beg to remain, Sir,

Yours obediently,

THE BANKING AND CURRENCY REFORM LEAGUE,

ARTHUR KITSON, *President.*

THE BANKING AND CURRENCY REFORM LEAGUE

OBJECTS: *The repeal of the Bank Charter Act and all laws that interfere with free exchange*

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A Short Explanation and Statement of Aims of the League

THE League seeks to propagate the view that cyclical trade depressions and financial crises, with their invariable accompaniments, dislocation of industry and commerce, low wages and unemployment—the modern social problems—are chiefly due to the banking and currency laws which bind our exchange system to a scarce metal, namely gold, the available quantity of which is subject to serious fluctuations by reason of investment abroad, hoarding, "corners," and Stock Exchange gambling. In other words, the League holds that a root evil of our industrial system is to be found in that which should unite capital and labour, *i.e.* money.

Most economists agree that the function of money is to serve as an evidence of debt, or a representative of wealth. The possession of money presumes that a producer has given up the results of his labour, but has not yet received an equivalent, and is therefore entitled to purchase. The League affirms that the most efficient evidence of such an unsatisfied claim is a paper document, guaranteed in such a manner that those concerned may have confidence that the paper represents its face value.

As exchange, however, commenced with barter—exchange of commodity for commodity—so, even when the convenience of a common medium of exchange was recognised, it was still thought necessary that the medium should be a valuable commodity—justice was, moreover, not sufficiently secure to admit of reliance being placed on a mere paper token. Gold and silver were chosen as media, partly on superstitious grounds, and partly on account of their comparative scarcity and their physical qualities, *i.e.* divisibility, etc. From the earliest days the issue of exchange medium has been monopolised by monarchs and rulers—at the outset because such issues constituted a valuable privilege—in later days, when some better justification was demanded, because people were considered to be unable to choose reliable media for themselves. The latter argument could always find corroboration, since, where freedom of choice is prohibited, people become incapable of choosing, and where freedom is first given, people generally begin by making mistakes. The monetary laws thus instituted laid producers under the necessity of paying tribute or usury to possessors of the precious metals.

With the increase in the volume of goods produced for exchange the available amount of gold became insufficient to effect all exchanges, and the hunger for exchange medium resulted in the invention of the paper promise to pay gold to bearer on demand. These tokens were issued by the early goldsmiths, and circulated by reason of public confidence that redemption of the token in gold was possible on demand. But demands for redemption became rarer as the reputation of the issuer increased, and the goldsmiths, or bankers, as they came to be called, were thereby enabled to issue many promises upon a small quantity of gold. In this manner the community was gradually led from the barter conception of money—the view that the medium of exchange must be a commodity—to the more accurate conception of money as an evidence of debt; and demands for redemption of notes in specie began to give place to surveillance of the banker's methods of issue. The banker's paper circu-

lated wherever people were satisfied that it represented debts that would be paid; the demand for specie was more and more relegated to special occasions.

Thus began the substitution of paper for gold, a process which permitted the extension and cheapening of the exchange medium—advantages of no small value to the community. In 1694, however, the Government took this valuable privilege of banking into its own hands and farmed it out as a monopoly to a private company—viz., the Bank of England. This monopoly was subsequently modified, in that banks of not more than six partners were allowed to be established, banking being thus limited to the wealthy members of the community.

At the industrial revolution the number of enterprises requiring capital or credit, and the volume of commodities requiring exchange, were suddenly and enormously increased. The first employers for the most part set up machines on bankers' credit; but, the increase of exchange medium being legally restricted while the volume of commodities increased, the establishment of fresh factories became increasingly difficult. Hence the monopoly of machinery in the hands of the few, and the glut of commodities in the hands of producers, owing to lack of purchasing power in the general public.

As the establishment of stable banking partnerships was restricted, countless mushroom banks sprang up to meet the demand. During the political upheavals of the period 1750-1820, when gold was often shipped to the Continent to pay war expenses, these petty banks failed by scores, bringing discredit upon the system of private banking and free note issue in general. By a similar process of reasoning to that adopted when monopolizing the coinage, the Government then took up a monopoly of bank-note issue. Banking monopoly, first instituted as a means of revenue, was now justified on the ground that people were not capable of choosing reliable bankers, it being incorrectly assumed that the private banks of issue were the cause of financial disturbances. On these grounds, ostensibly at least, we were given the Bank Charter Act of 1844.

Bankers were thus deprived of the right of note issue. Their ingenuity, however, enabled them to develop instead the cheque and bill of exchange system to its present extent. Modern commerce is only rendered possible by this vast substitution of paper for gold. Yet the fundamental disadvantage of all private credit instruments other than the bank-note is their lack of circulating power; they are not circulated except when the acceptor has confidence in the endorser. The bank-note circulates, as a coin does, by reason of its stamp, and the extended period of circulation gives the borrower time to produce the value necessary to redeem his debt. The majority of cheques, on the contrary, are returned immediately upon the banker after effecting one exchange transaction only; and, if not met by a corresponding repayment from the borrower, they effect a reduction of the banker's gold store or Bank of England account, and tend to prevent further extension of credit. Bankers are therefore compelled to confine their loans to speculators and others who obtain quick returns, ordinary productive industry being generally excluded from the cherishing effects of credit. The cheque is useful for those who already possess wealth and banking accounts; but the note is unquestionably the instrument best adapted for credit advances. The restrictions thus hindered the process of substitution of paper for gold, and limited the possibility of the extension and cheapening of credit.

The result is that, whereas we might long since have grown out of the use of gold itself as an exchange medium, our currency and banking laws have perpetuated the superstition that the stability of the country is bound up with the maintenance of a certain gold reserve in the Bank of England. We have tied down our entire exchange system to a ridiculously inadequate gold basis. Hence, whenever the proportion of gold becomes small in relation to the superstructure of credit, which may occur simply because gold has been exported in the form of foreign investments, or because production and the volume of credit have increased at home, we raise the Bank Rate in order to cause gold to

return; that is, we make money dearer, bankrupting great numbers of our manufacturers and causing quantities of goods to be thrown upon the market at ruinous prices in the endeavour to obtain exchange medium. It is estimated that an increase of one per cent. in the Bank Rate costs the producing classes of this country from three to four hundred thousand pounds per week. Yet, about every ten years, since 1844, the Bank Rate has risen from three per cent (the normal) to seven, eight, and sometimes ten per cent. Under our present system, therefore, we move in a vicious circle, wherein prosperity and increased production inevitably bring ruin and stagnation in their train. The banker can never foretell the occurrence of such crises. He is therefore compelled in ordinary times to confine his advances to such persons as possess security that is saleable even in times of crisis when there is a universal hunger for money. The security of stock and business plant of the ordinary manufacturer is thus often excluded in a second manner from serving as a basis for credit advances.

The League controverts every argument on which the Bank Charter Act is based. To banking restrictions must be imputed the greatest share in giving the monopoly of machinery into the hands of the few. The League holds that, just as it is desirable that exchange should be free in order that all varieties of human desire may receive satisfaction, so the issue of exchange medium should be free in order that all forms of production and security may be valid for credit. It affirms that our industrial system can be placed upon a comparatively sound basis by restoring freedom of banking to commerce. The test of sound credit issues should be, not the banker's gold reserve, but security in saleable goods, the local reputation of persons to whom advances are made, followed by the due repayment of loans by borrowers.

The League maintains that freedom of banking would reduce the interest on loans to a sixth or an eighth of the present average rate, according to the risk taken, for competition between bankers, and freedom to issue bank-notes, must eventually reduce the price of money to the

mere cost of valuing averagely safe security. Usury itself cannot of course be extinguished whilst the evil of land monopoly exists. Obviously the price of gold must fall when that metal is deprived of its monopoly value; but the withdrawal of gold from its function as exchange medium must ultimately render its price more stable, as fluctuations in trade could thenceforward be met by corresponding fluctuations of paper without disturbing the demand for gold. The League holds that freedom of banking would enable the extension of loans to all holders of saleable security or established reputation, since it would prevent those fluctuations of the money market which, under the present system, so often ruin the hopes of producers and render the banker fearful of accepting any but very valuable or "gilt-edged" security as a basis for advances; that it would gradually reduce the dividends paid at present by producers to the gold-owning classes, the largest source of unearned increment, while enabling a great extension of business to present bankers; and that it would enable such a growth of enterprise that wages must soon rise to their economic limit (since the capable unemployed would be automatically absorbed) and the price of commodities fall to the lowest possible.

To sum up: by its legal restrictions on the means of exchange, by confining credit to the possession or command of a single scarce commodity, gold, our present system limits purchasing power, compels under-consumption of necessaries, demoralises trade, and restricts sound enterprise. There is constant insecurity with cyclical recurrence of crises and stagnation; but the gold monopolists and bankers secure themselves against these at the expense of the rest of the community.

Copies of this leaflet may be obtained free of charge (except postage) on application to the Secretary of the League.

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